MANAGEMENT'S DISCUSSION AND ANALYSIS

May 3, 2018

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited Interim Condensed Financial Statements for the three months ended March 31, 2018, the Company's 2017 Annual Report, the Annual Information Form for the year ended December 31, 2017, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

The 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 unaudited Interim Condensed Financial Statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company, including the Annual Information Form and Management Information Circular is available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Total revenue	**$ 385,780**	$ 354,787
Gross margin	**64,502**	73,302
Selling and administrative expenses	**45,037**	42,961
Operating income	**19,465**	30,341
Earnings before finance costs and taxes ("EBIT")	**19,328**	33,134
Net earnings	**$ 10,873**	$ 24,517
Key Financial Performance Indicators[1]		
Engineered Systems Bookings	**$ 301,242**	$ 318,688
Engineered Systems Backlog	**$ 653,626**	$ 692,230
Recurring revenue as a percentage of revenue[2]	**29.7%**	38.2%
Gross margin as a percentage of revenue	**16.7%**	20.7%
EBIT as a percentage of revenue[2, 3]	**8.3%**	3.5%
Earnings before interest, tax, depreciation and amortization ("EBITDA")[3]	**$ 40,305**	$ 52,910
Return on capital employed ("ROCE")[3]	**9.8%**	3.1%
Cash from operations	**$ 25,095**	$ 1,311

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

FIRST QUARTER OF 2018 OVERVIEW

For the three months ended March 31, 2018:

- Enerflex generated revenue of $385.8 million, an 8.7 percent increase compared to $354.8 million in the first quarter of 2017. The quarterly revenue increase of $31.0 million was driven primarily by the strength in Engineered Systems revenues in Canada and the USA. Revenue improved quarter-over-quarter, and returned to more [normal results] when compared to the strong fourth quarter of 2017.
- Gross margin was $64.5 million in the first quarter of 2017 compared to $73.3 million in the same period of 2017. While revenues increased, gross margins have decreased largely due to lower contributions from the Engineered Systems product line as gross margin percentage is down from 20.7 percent in the prior year to 16.7 percent in the current year. Project tip-ins in the prior year combined with some margin erosion on certain large Engineered Systems projects also contributed to the lower margins.
- Incurred SG&A costs of $45.0 million in the first quarter of 2018, up from $43.0 million in the same period last year. The increase in SG&A is driven by higher compensation costs due to higher head count and higher foreign exchange expenses, partially offset by lower share-based compensation costs and third-party costs related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration.
- Reported EBIT of $19.3 million during the first quarter of 2018 compared to $33.1 million in the first quarter of 2017. The 2017 results include a $2.9 million gain on sale of building and property, plant and equipment ("PP&E").
- Recorded bookings of $301.2 million for three months ended March 31, 2018, a 5.5 percent decrease compared to the $318.7 million recorded during the same period last year. The USA segment continues to provide robust bookings while the Canadian segment continues to experience low bookings as a result of customer caution driven by uncertain economic conditions.
- Engineered Systems backlog at March 31, 2018 was $653.6 million, a 2.6 percent decrease compared to the December 31, 2017 backlog of $670.8 million.
- Subsequent to March 31, 2018, the Company declared a quarterly dividend of $0.095 per share, payable on July 5, 2018, to shareholders of record on May 17, 2018.

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 assets; 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.

	Three months ended March 31, 2018			
($ Canadian thousands)	**Total**	**Canada**	**USA**	**ROW**
Reported EBIT	**$ 19,328**	**$ 1,896**	**$ 14,745**	**$ 2,687**
Restructuring costs in COGS and SG&A	**938**	**-**	**-**	**938**
(Gain) loss on disposal of PP&E	**60**	**101**	**-**	**(41)**
Share-based compensation	**2,434**	**626**	**1,209**	**599**
Depreciation and amortization	**20,977**	**3,043**	**5,047**	**12,887**
Adjusted EBITDA	**$ 43,737**	**$ 5,666**	**$ 21,001**	**$ 17,070**

	Three months ended March 31, 2017			
($ Canadian thousands)	Total	Canada	USA	ROW
Reported EBIT	$ 33,134	$ 1,250	$ 22,629	$ 9,255
Restructuring costs in COGS and SG&A	-	-	-	-
(Gain) loss on disposal of PP&E	(2,940)	(2,935)	15	(20)
Share-based compensation	4,034	868	2,196	970
Depreciation and amortization	19,776	3,520	2,866	13,390
Adjusted EBITDA	$ 54,004	$ 2,703	$ 27,706	$ 23,595

Adjusted EBITDA for the three months ended March 31, 2018 has decreased over the same period from the prior year. 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 the first quarter of 2018. The first quarter of 2017 included approximately $2.0 million of arbitration related costs. These amounts are not adjusted for in the calculation of Adjusted EBITDA.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

Bookings	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Canada	**$ 16,834**	$ 153,235
USA	**240,448**	164,489
Rest of World	**43,960**	964
Total bookings	**$ 301,242**	$ 318,688

Backlog	**March 31,**	December 31,
($ Canadian thousands)	**2018**	2017
Canada	**$ 92,845**	$ 172,918
USA	**448,536**	394,861
Rest of World	**112,245**	103,020
Total backlog	**$ 653,626**	$ 670,799

Bookings were slightly lower in the first quarter of 2018 compared to the same period of 2017. The USA segment bookings were quite strong with a number of large project bookings. The Rest of World Segment was also successful in booking a large project in Latin America. Canada continued the trend of weak bookings that started in the last half of 2017, which is driven by weak commodity pricing and customer caution given uncertain economic conditions.

The movement in exchange rates resulted in an increase of $11.7 million on foreign currency denominated bookings during the first quarter of 2018, compared to a decrease of $3.4 million during the first quarter of 2017.

SEGMENTED RESULTS

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate 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:

- Canada generates revenue from manufacturing (primarily compression equipment), service, and rentals;
- USA generates revenue from manufacturing natural gas compression equipment and process equipment in addition to generating revenue from product support services and contract compression rentals; and
- 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 ("BOOM") projects.

USA Segment Results

($ Canadian thousands)		Three months ended March 31, 2018		2017
Engineered Systems Bookings	**$**	**240,448**	$	164,489
Engineered Systems Backlog		**448,536**		389,348
Segment revenue	**$**	**197,956**	$	203,590
Intersegment revenue		**(6,405)**		(10,410)
Revenue	**$**	**191,551**	$	193,180
Revenue – Engineered Systems	**$**	**150,876**	$	165,540
Revenue – Service	**$**	**29,079**	$	25,232
Revenue – Rental	**$**	**11,596**	$	2,408
Operating income	**$**	**14,745**	$	22,644
EBIT	**$**	**14,745**	$	22,629
EBITDA	**$**	**19,792**	$	25,495
Segment revenue as a % of total revenue		**49.7%**		54.4%
Recurring revenue as a % of segment revenue		**21.2%**		14.3%
Operating income as a % of segment revenue		**7.7%**		11.7%
EBIT as a % of segment revenue		**7.7%**		11.7%
EBITDA as a % of segment revenue		**10.3%**		13.2%

In the first quarter of 2018, bookings increased by $76.0 million or 46.2 percent compared to the same period in the prior year. The backlog in the USA segment remains healthy at $448.5 million.

Revenue decreased by $1.6 million in the first quarter of 2018 compared to the same period of 2017. Engineered Systems revenue decreased over the prior largely due to timing as the prior year results include the revenue recognition from some large projects as well as the impact of the weaker U.S. dollar in Q1 2018. 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 build-out of the contract compression fleet over the last half of 2017.

Operating income and EBIT were lower in the first quarter of 2018 compared to the prior year by $7.9 million due to lower Engineered Systems margins due to a greater proportion of revenue coming from lower margin compression sales, the inclusion of high margin projects in 2017, and higher SG&A costs driven by higher compensation costs. These declines were partially offset by the increase in the higher margin Service and Rental product lines.

Rest of World Segment Results

	Three months ended March 31,			
($ Canadian thousands)		**2018**		2017
Engineered Systems Bookings	**$**	**43,960**	$	964
Engineered Systems Backlog		**112,245**		37,745
Segment revenue	**$**	**96,554**	$	85,532
Intersegment revenue		**(1,585)**		(263)
Revenue	**$**	**94,969**	$	85,269
Revenue – Engineered Systems	**$**	**34,735**	$	26,957
Revenue – Service	**$**	**33,099**	$	28,491
Revenue – Rental	**$**	**27,135**	$	29,821
Operating income	**$**	**2,646**	$	9,235
EBIT	**$**	**2,687**	$	9,255
EBITDA	**$**	**15,574**	$	22,645
Segment revenue as a % of total revenue		**24.6%**		24.0%
Recurring revenue as a % of segment revenue		**63.4%**		68.4%
Operating income as a % of segment revenue		**2.8%**		10.8%
EBIT as a % of segment revenue		**2.8%**		10.9%
EBITDA as a % of segment revenue		**16.4%**		26.6%

Bookings for the current quarter primarily relates to a project booked in Colombia.

Rest of World revenue increased by $9.7 million in the first quarter of 2018 compared to the same period in the prior year. Engineered Systems revenue in the quarter was higher due to the continued progress on a number of large jobs in the Middle East. Service revenue increased in the quarter with higher parts sales and higher service levels the Middle East and Australia. The decline in Rental revenues is due to lower utilization rates in Mexico and the impact of the weaker U.S. dollar in Q1 2018, partially offset by rental revenues on the new BOOM project in Colombia.

Operating income decreased by $6.6 million in the first quarter of 2018 compared to the same period of 2017. The current quarter includes margin erosion and project delays for a large project. Additionally, the comparative period included some high margin Engineered Systems projects which were completed in 2017. SG&A costs have decreased from the prior year as there were no third-party costs incurred related to the OOCEP arbitration, partially offset by some negative foreign exchange impacts and the effects of restructuring activities in Australia.

Canada Segment Results

($ Canadian thousands)		Three months ended March 31, **2018**		2017
Engineered Systems Bookings	**$**	**16,834**	$	153,235
Engineered Systems Backlog		**92,845**		265,137
Segment revenue	**$**	**101,212**	$	77,031
Intersegment revenue		**(1,952)**		(693)
Revenue	**$**	**99,260**	$	76,338
Revenue – Engineered Systems	**$**	**84,433**	$	55,358
Revenue – Service	**$**	**12,493**	$	17,196
Revenue – Rental	**$**	**2,334**	$	3,784
Operating income (loss)	**$**	**2,074**	$	(1,538)
EBIT[1]	**$**	**1,896**	$	1,250
EBITDA[1]	**$**	**4,939**	$	4,770
Segment revenue as a % of total revenue		**25.7%**		21.5%
Recurring revenue as a % of segment revenue		**14.9%**		27.5%
Operating income (loss) as a % of segment revenue		**2.1%**		(2.0)%
EBIT as a % of segment revenue		**1.9%**		1.6%
EBITDA as a % of segment revenue		**5.0%**		6.2%

[1] Inclusive of $2.9 million gain on sale of PP&E in first quarter of 2017.

The customer caution driven by uncertain economic conditions continues in Canada and has translated into another quarter of low bookings. Bookings have been low since mid-2017, resulting in in a decline in the backlog to $92.8 million. The regional transportation issues and low commodity prices continue to dampen customer spending and customers continue to delay decisions on projects. Despite these conditions, the Company continues to see healthy enquiry levels.

The increase in revenue of $22.9 million for the first quarter compared to the same period of 2017 was primarily attributable to higher revenues from the Engineered Systems product line, largely driven by the depletion of the backlog that was created by bookings from the first half of 2017. Service revenues for the quarter are down from the prior year, primarily due to a large volume of parts sales in the prior year. Contracted rental revenues are consistent with the comparative period but revenues from the Rental product line are down due to lower equipment sales.

Operating income for the first quarter of 2018 improved by $3.6 million primarily due to increased revenues, partially offset by margin erosion on certain projects and higher SG&A costs. The higher SG&A costs are driven by higher compensation costs due to higher headcount.

EBIT for the first quarter of 2018 was $0.6 million higher than the comparable period in 2017 due to the improved operational results. The prior year EBIT figures also included the gain on sale of PP&E for $2.9 million.

INCOME TAXES

Income tax expense totaled $3.5 million or 24.2 percent of earnings before tax for the three months ended March 31, 2018 compared to income tax expense of $5.9 million or 19.3 percent of earnings before tax in the same period of 2017. Income tax expense was lower primarily due to a decrease in earnings before tax and the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions, partially offset by the impact of earnings taxed in foreign jurisdictions. The change in the effective tax rate is primarily due to the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions and the mix of earnings taxed 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.

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

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 but remains disciplined in keeping the appropriate levels of staffing.

Outlook by Segment

USA

The recent performance of the USA segment has been largely dependent on production from shale oil and gas. The recent increase in commodity prices, along with lower corporate tax rates, has led to increased activity. The Company expects 2018 to be a year of continued steady demand for compression and processing equipment. The contract compression fleet is approximately 165,000 horsepower, which provides a valuable recurring revenue source, and the Company will continue to grow and invest in these assets in 2018.

Rest of World

In the Rest of World segment, the Company has seen project successes in both MEA and Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 105,000 horsepower. The Company continues to explore new markets and opportunities within this region in order to enhance recurring revenues, focusing on integrated turnkey and BOOM projects. 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 and Colombia and mid- to longer-term prospects in Mexico and Brazil. The Company completed a project in Argentina's Vaca Muerta shale play during 2017 and further development opportunities exist as producers expand production in this formation. In Colombia, during the first quarter, the Company booked an Engineered Systems project and commenced operations on a previously awarded BOOM project. In Mexico, there continues to be a lack of investment; however, Enerflex booked a rental contract with an independent producer during the first quarter, indicative of the market opening up under Energy Reform. Enerflex expects continued opportunities as more independent producers enter the market. In Australia, Enerflex is also 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 increase as producers return to the minimum maintenance requirements for their assets. The Company also restructured the Australian operations in order to enhance profitability in the region.

Canada

The Canadian market remains constrained by negative sentiment and low commodity prices. Western Canadian production continues to be priced at a significant discount to other North American benchmark pricing and low natural gas prices continue to affect many of the Company's customers. Management expects the Canada segment to continue to face headwinds until there is further improvement in commodity prices, which will allow customers in the region to expand their capital spending. Activity is expected to be subdued in 2018 compared to 2017 and will remain so until there is a recovery in natural gas prices and proper export solutions for Western Canadian production.

ENERFLEX STRATEGY

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

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

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

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

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

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

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 March 31,	
($ Canadian thousands)	**2018**	2017
EBITDA		
Earnings before finance costs and taxes	**$ 19,328**	$ 33,134
Depreciation and amortization	**20,977**	19,776
EBITDA	**$ 40,305**	$ 52,910
Recurring Revenue		
Service	**$ 74,671**	$ 70,919
Rental	**41,065**	36,013
Total Recurring Revenue	**$ 115,736**	$ 106,932
ROCE		
Trailing 12-month EBIT[1]	**$ 131,989**	$ 42,792
Capital Employed - beginning of period		
Net debt	**$ 232,726**	$ 226,402
Shareholders' equity	**1,134,472**	1,117,627
	$ 1,367,198	$ 1,344,029
Capital Employed - end of period		
Net debt	**$ 235,409**	$ 227,650
Shareholders' equity	**1,166,872**	1,139,668
	$ 1,402,281	$ 1,367,318
Average Capital Employed[2]	**$ 1,350,465**	$ 1,384,683
Return on Capital Employed	**9.8%**	3.1%

[1]Includes the impact of impairments.

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

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
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
June 30, 2016	253,068	16,841	0.21	0.21

[1] Amounts presented are from continuing operations.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at March 31, 2018 compared to December 31, 2017:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$(8.0)	The decrease in current assets and liabilities is due to reduced cash balances and non-cash working capital balances. The accounts receivable, inventory, accounts payable and deferred revenue balances all decreased.
Rental equipment	$16.1	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.
Total assets	$(51.0)	The decrease in total assets is primarily related to the decrease in cash, accounts receivable, and inventory, offset by the increase in rental equipment and the impact of the strengthening U.S. dollar relative to the Canadian dollar.
Long-term debt	$(15.2)	The decrease in long-term debt is due to repayments on the Bank Facility, offset by the strengthening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$32.7	Shareholders' equity before non-controlling interest increased due to net earnings of $10.7 million, $1.5 million of stock option impacts, $2.7 million opening retained earnings adjustment on adoption of IFRS 15 and $26.1 million unrealized gain on translation of foreign operations offset by dividends of $8.4 million.

There were no significant developments in the quarter related to the arbitration proceedings against OOCEP. Previously disclosed variation claims are subject to the outcome of the arbitration proceedings. Approximately $30.0 million in milestone payments due from OOCEP are overdue and remain unpaid. Enerflex is unable to predict when the arbitration will be resolved.

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 March 31, 2018, the Company held cash and cash equivalents of $209.4 million and had cash drawings of $139.1 million against the Bank Facility, leaving it with access to $580.5 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 defined net debt to EBITDA ratio of less than 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 14:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

Summarized Statements of Cash Flow

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Cash, beginning of period	**$ 227,284**	$ 167,561
Cash provided by (used in):		
Operating activities	**25,095**	1,311
Investing activities	**(20,590)**	2,984
Financing activities	**(23,166)**	(14,724)
Exchange rate changes on foreign currency cash	**811**	23
Cash, end of period	**$ 209,434**	$ 157,155

Operating Activities

For the three months ended March 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, partially offset by lower earnings.

Investing Activities

For the three months ended March 31, 2018 cash used in investing activities increased due to continued investment in rental equipment and lower proceeds on the disposal of assets.

Financing Activities

For the three months ended March 31, 2018, cash used in financing activities increased primarily due to higher repayments on the credit facility.

CAPITAL RESOURCES

On April 30, 2018, Enerflex had 88,606,207 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. Earlier in the first quarter of 2018, the Company declared a quarterly dividend of $0.095 per share.

At March 31, 2018, the Company had drawn $139.1 million against the Bank Facility (December 31, 2017 - $160.6 million). The weighted average interest rate on the Bank Facility at March 31, 2018 was 3.1 percent (December 31, 2017 – 2.6 percent).

The composition of the borrowings on the Bank Facility and the Company's unsecured notes was as follows:

($ Canadian thousands)	**March 31, 2018**	**December 31, 2017**
Drawings on Bank Facility	**$ 139,128**	$ 160,576
Notes due June 22, 2021	**40,000**	40,000
Notes due December 15, 2024	**150,387**	146,723
Notes due December 15, 2027	**120,258**	117,815
Deferred transaction costs	**(4,930)**	(5,104)
	$ 444,843	$ 460,010

At March 31, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $179.1 million, and $270.6 million thereafter.

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:

i. **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. A lessee can apply the standard using either a full retrospective or a modified retrospective approach, the latter of which may include an adjustment to be made to opening balances to reflect the Company's financial position at that date had the new standard been applied in prior periods. The Company is currently completing an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements.

ii. **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 expects to apply the amendments beginning January 1, 2019, and is currently assessing the impact of the amendments to the standard on 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 Interim Condensed 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 Interim Condensed 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

There have been no significant changes in the design of the Company's ICFR during the three months ended March 31, 2018 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

Management has limited the scope of the design of DC&P and ICFR to exclude the controls, policies, and procedures of Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa as well as rental units entered into service subsequent to the acquisition, the income statement and balance sheet of which is included in the March 31, 2018 interim condensed financial statements of Enerflex. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109. Enerflex intends to complete the design of DC&P and ICFR of the operations of Enerflex Contract Compression by July 31, 2018.

($ Canadian millions)	For the three months ended March 31, 2018	
Revenue	$	10.9
EBIT		2.0

($ Canadian millions)	As at March 31, 2018	
Current Assets	$	13.8
Non-current assets		181.5
Current liabilities		6.5
Non-current liabilities		-

SUBSEQUENT EVENTS

Subsequent to March 31, 2018, the Company announced a quarterly dividend of $0.095 per share, payable on July 5, 2018, to shareholders of record on May 17, 2018.

Subsequent to quarter end, the Company entered into an agreement to sell an idle facility in Wyoming for USD $3.5 million. A letter of intent was also received on a second idle facility in Wyoming with expected proceeds of USD $6.4 million.

FORWARD-LOOKING STATEMENTS

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

All forward-looking information in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets sections, is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations, including, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. 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.

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**209,434**	$	227,284
Accounts receivable (Note 3)		**429,985**		445,714
Inventories (Note 4)		**127,984**		171,455
Income taxes receivable		**13,943**		14,621
Derivative financial instruments (Note 12)		**291**		470
Other current assets		**8,166**		9,937
Total current assets		**789,803**		869,481
Property, plant and equipment (Note 5)		**97,330**		97,232
Rental equipment (Note 5)		**478,270**		462,164
Deferred tax assets (Note 10)		**50,010**		47,862
Other assets		**51,245**		50,423
Intangible assets		**33,832**		35,452
Goodwill (Note 6)		**579,086**		567,988
Total assets	**$**	**2,079,576**	$	2,130,602
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**278,058**	$	322,951
Provisions (Note 7)		**15,210**		15,653
Income taxes payable		**9,157**		5,585
Deferred revenues (Note 8)		**113,778**		143,177
Deferred financing income		**266**		298
Derivative financial instruments (Note 12)		**184**		813
Total current liabilities		**416,653**		488,477
Long-term debt (Note 9)		**444,843**		460,010
Deferred tax liabilities (Note 10)		**35,723**		32,957
Other liabilities		**15,485**		14,686
Total liabilities	**$**	**912,704**	$	996,130
Shareholders' equity				
Share capital	**$**	**358,811**	$	357,696
Contributed surplus		**654,464**		654,076
Retained earnings		**54,069**		49,011
Accumulated other comprehensive income		**98,497**		72,364
Total shareholders' equity before non-controlling interest		**1,165,841**		1,133,147
Non-controlling interest		**1,031**		1,325
Total shareholders' equity and non-controlling interest		**1,166,872**		1,134,472
Total liabilities and shareholders' equity	**$**	**2,079,576**	$	2,130,602

See accompanying Notes to the Interim Condensed Financial Statements, including guarantees, commitments and contingencies (Note 15).

INTERIM CONDENSED STATEMENTS OF EARNINGS *(unaudited)*

	Three months ended March 31,	
($ Canadian thousands, except per share amounts)	**2018**	2017
Revenue (Note 14)	**$ 385,780**	$ 354,787
Cost of goods sold	**321,278**	281,485
Gross margin	**64,502**	73,302
Selling and administrative expenses	**45,037**	42,961
Operating income	**19,465**	30,341
Gain (loss) on disposal of property, plant and equipment	**(60)**	2,940
Equity loss from associate and joint venture	**(77)**	(147)
Earnings before finance costs and income taxes	**19,328**	33,134
Net finance costs	**4,984**	2,754
Earnings before income taxes	**14,344**	30,380
Income taxes (Note 10)	**3,471**	5,863
Net earnings	**$ 10,873**	$ 24,517
Net earnings attributable to:		
Controlling interest	**$ 10,732**	$ 24,407
Non-controlling interest	**141**	110
	$ 10,873	$ 24,517
Earnings per share – basic	**$ 0.12**	$ 0.28
Earnings per share – diluted	**$ 0.12**	$ 0.28
Weighted average number of shares – basic	**88,549,366**	88,353,078
Weighted average number of shares – diluted	**88,951,130**	89,040,739

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Net earnings	**$ 10,873**	$ 24,517
Other comprehensive income:		
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 recovery	**395**	(3)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**33**	260
Unrealized gain (loss) on translation of foreign denominated debt	**(11,642)**	2,421
Unrealized gain (loss) on translation of financial statements of foreign operations	**36,912**	(364)
Other comprehensive income	**$ 25,698**	$ 2,314
Total comprehensive income	**$ 36,571**	$ 26,831
Other comprehensive income attributable to:		
Controlling interest	**$ 26,133**	$ 3,014
Non-controlling interest	**(435)**	(700)
	$ 25,698	$ 2,314

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Operating Activities		
Net earnings	$ **10,873**	$ 24,517
Items not requiring cash and cash equivalents:		
Depreciation and amortization	**20,977**	19,776
Equity loss from associate and joint venture	**77**	147
Deferred income taxes (Note 10)	**(2,323)**	(5,858)
Share-based compensation expense (Note 11)	**2,434**	4,034
(Gain) loss on sale of property, plant and equipment	**60**	(2,940)
	32,098	39,676
Net change in non-cash working capital and other (Note 13)	**(7,003)**	(38,365)
Cash provided by operating activities	$ **25,095**	$ 1,311
Investing Activities		
Additions to:		
Property, plant and equipment (Note 5)	$ **(1,907)**	$ (1,105)
Rental equipment (Note 5)	**(18,865)**	(979)
Proceeds on disposal of:		
Property, plant and equipment (Note 5)	**109**	3,695
Rental equipment (Note 5)	**305**	1,941
Change in other assets	**(232)**	(568)
Cash (used in) provided by investing activities	$ **(20,590)**	$ 2,984
Financing Activities		
Repayment of long-term debt (Note 13)	$ **(15,654)**	$ (9,527)
Dividends	**(8,411)**	(7,497)
Stock option exercises	**899**	2,300
Cash used in financing activities	$ **(23,166)**	$ (14,724)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	$ **811**	$ 23
Decrease in cash and cash equivalents	**(17,850)**	(10,406)
Cash and cash equivalents, beginning of period	**227,284**	167,561
Cash and cash equivalents, end of period	$ **209,434**	$ 157,155

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY *(unaudited)*

($ 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	-	-	24,407	-	-	-	24,407	110	24,517
Other comprehensive income (loss)	-	-	-	2,757	257	3,014	3,014	(700)	2,314
Effect of stock option plans	3,392	(666)	-	-	-	-	2,726	-	2,726
Dividends	-	-	(7,516)	-	-	-	(7,516)	-	(7,516)
At March 31, 2017	$ 356,655	$ 652,837	$ (109)	$ 129,015	$ (777)	$ 128,238	$ 1,137,621	$ 2,047	$ 1,139,668
At January 1, 2018	$ 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 18)	-	-	2,738	-	-	-	2,738	-	2,738
Net earnings	-	-	10,732	-	-	-	10,732	141	10,873
Other comprehensive income (loss)	-	-	-	25,705	428	26,133	26,133	(435)	25,698
Effect of stock option plans	1,115	388	-	-	-	-	1,503	-	1,503
Dividends	-	-	(8,412)	-	-	-	(8,412)	-	(8,412)
At March 31, 2018	**$ 358,811**	**$ 654,464**	**$ 54,069**	**$ 99,030**	**$ (533)**	**$ 98,497**	**$ 1,165,841**	**$ 1,031**	**$ 1,166,872**

See accompanying Notes to the Interim Condensed Financial Statements.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These Interim Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These Interim Condensed Financial Statements were approved and authorized for issue by the Board of Directors on May 3, 2018.

(b) Basis of Presentation and Measurement

These Interim Condensed Financial Statements for the three months ended March 31, 2018 and 2017 were prepared in accordance with IAS 34 and do not include all the disclosures included in the Annual Consolidated Financial Statements for the year ended December 31, 2017. Accordingly, these Interim Condensed Financial Statements should be read in conjunction with the Annual Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

The Interim Condensed Financial Statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. Effective January 1, 2018, the Company applied the following IFRS standards for the first time: IFRS 15 *Revenue from Contracts with Customers* – which replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and the related interpretations on revenue recognition – and IFRS 9 *Financial Instruments* – which replaced IAS 39 *Financial Instruments: Recognition and Measurement*. There have been no other significant changes in accounting policies compared to those described in the Annual Consolidated Financial Statements for the year ended December 31, 2017. Adjustments made on transition to the new standards are detailed in Note 18.

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.

(c) 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:

i. 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. A lessee can apply the standard using either a full retrospective or a modified retrospective approach, the latter of which may include an adjustment to be made to opening balances to reflect the Company's financial position at that date had the new standard been applied in prior periods. The Company is currently completing an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements.

ii. 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 expects to apply the amendments beginning January 1, 2019, and is currently assessing the impact of the amendments to the standard on the Company's Consolidated Financial Statements.

NOTE 2. 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 assets acquired and liabilities assumed as at July 31, 2017 were determined provisionally. There has been no adjustment to the fair value of assets acquired or liabilities assumed subsequent to the acquisition date. Refer to Note 7 of the Annual Consolidated Financial Statements for fair value of the identifiable assets acquired and liabilities assumed as at the acquisition date.

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Trade receivables	**$**	**294,950**	$	297,636
Less: allowance for doubtful accounts		**(1,407)**		(968)
Trade receivables, net		**293,543**		296,668
Unbilled receivables		**123,551**		134,995
Other receivables		**12,891**		14,051
Total accounts receivable	**$**	**429,985**	$	445,714

Aging of trade receivables:

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Current to 90 days	**$**	**255,647**	$	262,523
Over 90 days		**39,303**		35,113
	$	**294,950**	$	297,636

Movement in unbilled receivables:

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Balance, January 1	**$**	**134,995**	$	100,742
IFRS 15 transitional adjustment		**14,657**		-
Unbilled revenue recognized		**139,602**		266,876
Amounts billed		**(171,605)**		(232,135)
Currency translation effects		**5,902**		(488)
Closing balance	**$**	**123,551**	$	134,995

NOTE 4. INVENTORIES

Inventories consisted of the following:

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Equipment	**$**	**7,601**	$	9,510
Repair and distribution parts		**42,558**		43,745
Direct materials		**50,634**		50,193
Work-in-process		**27,191**		68,007
Total inventories	**$**	**127,984**	$	171,455

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three months ended March 31, 2018 was $321.3 million (March 31, 2017 – $281.5 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 Interim Condensed Statements of Earnings and included in cost of goods sold for the three months ended March 31, 2018 was $0.6 million (March 31, 2017 – $1.0 million).

Work-in-process inventory decreased, largely due to the adoption of IFRS 15. Refer to Note 18 for a reconciliation of transitional adjustments relating to the adoption of the new standard.

NOTE 5. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three months ended March 31, 2018, the Company acquired $1.9 million in property, plant and equipment (March 31, 2017 – $1.1 million) and $18.9 million in rental equipment (March 31, 2017 – $1.0 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2018 was $18.1 million (March 31, 2017 – $16.9 million), of which $17.0 million was included in cost of goods sold (March 31, 2017 – $15.6 million) and $1.1 million was included in selling and administrative expenses (March 31, 2017 –$1.3 million).

NOTE 6. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Balance, January 1	**$**	**567,988**	$	571,826
Acquisition		**-**		18,267
Currency translation effects		**11,098**		(22,105)
Closing balance	**$**	**579,086**	$	567,988

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. During the first three months of 2018, the Company did not identify any indicators of impairment.

NOTE 7. PROVISIONS

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Warranty provision	**$**	**10,934**	$	10,927
Restructuring provision		**384**		285
Legal provision		**96**		94
Onerous lease provision		**3,796**		4,347
	$	**15,210**	$	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 March 31, 2018 is $0.5 million for Canada and $3.3 million for Australia (December 31, 2017 - $0.5 million and $3.9 million, respectively).

NOTE 8. DEFERRED REVENUES

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Balance, January 1	**$**	**143,177**	$	81,930
IFRS 15 transitional adjustment		**(33,954)**		-
Cash received in advance of revenue recognition		**118,701**		570,475
Revenue recognized		**(116,492)**		(500,482)
Currency translation effects		**2,346**		(8,746)
Closing balance	**$**	**113,778**	$	143,177

Deferred revenues decreased, largely due to the adoption of IFRS 15. Refer to Note 18 for a reconciliation of transitional adjustments relating to the adoption of the new standard.

NOTE 9. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2021 (the "Maturity Date"). The Maturity Date of the Bank Facility 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 principal repayments until the Maturity Date of the Bank Facility.

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

($ Canadian thousands)		**March 31, 2018**		December 31, 2017
Drawings on Bank Facility	**$**	**139,128**	$	160,576
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**150,387**		146,723
Notes due December 15, 2027		**120,258**		117,815
Deferred transaction costs		**(4,930)**		(5,104)
	$	**444,843**	$	460,010

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2018 was 3.1 percent (December 31, 2017 – 2.6 percent). At March 31, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $179.1 million, and $270.6 million thereafter.

NOTE 10. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

		Three months ended March 31,		
($ Canadian thousands)		**2018**		2017
Current income taxes	**$**	**5,794**	$	11,721
Deferred income taxes		**(2,323)**		(5,858)
	$	**3,471**	$	5,863

(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:

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Earnings before income taxes from continuing operations	**$ 14,344**	$ 30,380
Canadian statutory rate	**27.0%**	27.0%
Expected income tax provision	**$ 3,873**	$ 8,203
Add (deduct):		
Exchange rate effects on tax basis	**(4,407)**	(2,890)
Earnings taxed in foreign jurisdictions	**3,629**	596
Amounts not (taxable) deductible for tax purposes	**392**	(166)
Impact of accounting for associates and joint ventures	**(17)**	10
Other	**1**	110
Income tax expense from continuing operations	**$ 3,471**	$ 5,863

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).

NOTE 11. SHARE-BASED COMPENSATION

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

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Equity settled share-based payments	**$ 605**	$ 423
Cash settled share-based payments	**1,829**	3,611
Share-based compensation expense	**$ 2,434**	$ 4,034

Deferred share units ("DSUs"), phantom share entitlements ("PSEs"), performance share units ("PSUs"), restricted share units ("RSUs"), and cash performance target plan ("CPT") are all classified as cash settled share-based payments. Stock options are equity settled share-based payments.

The Company did not grant any CPTs, PSUs, RSUs, PSEs or options to officers and key employees during the first three months. The RSU, PSU, and DSU holders had dividends credited to their account during the period. The carrying amount of the liability relating to cash settled share-based payments at March 31, 2018 included in current liabilities was $4.9 million (December 31, 2017 – $4.2 million) and in other long-term liabilities was $11.9 million (December 31, 2017 – $10.8 million).

(a) Equity-Settled Share-Based Payments

	March 31, 2018			December 31, 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	**-**		**-**	800,498		15.75
Exercised [1]	**(65,809)**		**12.98**	(243,580)		12.70
Forfeited	**-**		**-**	-		-
Expired	**-**		**-**	(100)		12.96
Options outstanding, end of period	**3,490,766**	**$**	**14.05**	3,556,575	$	14.03
Options exercisable, end of period	**1,576,890**	**$**	**13.55**	1,604,238	$	13.47

[1]The weighted average share price of options at the date of exercise for the three months ended March 31, 2018 was $16.14 (March 31, 2017 - $17.84).

The following table summarizes options outstanding and exercisable at March 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 - $11.76	1,109,850	3.20	$	11.67	654,153	2.39	$	11.66
$11.77 - $15.04	1,236,208	3.52		13.20	701,344	2.42		13.04
$15.05 - $20.75	1,144,708	5.44		17.28	221,393	3.36		20.75
Total	**3,490,766**	**4.05**	**$**	**14.05**	**1,576,890**	**2.54**	**$**	**13.55**

b) Cash-Settled Share-Based Payments

During the three months ended March 31, 2018, directors’ fees and executive bonuses elected to be received in DSUs totalled $0.7 million (March 31, 2017 – $0.5 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2018	593,771	$	13.93
Granted	42,381		15.88
In lieu of dividends	3,479		15.81
DSUs outstanding, March 31, 2018	**639,631**	**$**	**14.07**

NOTE 12. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2018 were designated in the same manner as they were at December 31, 2017. Accordingly, with the exception of the long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at March 31, 2018 was $310.6 million and $316.9 million, respectively (December 31, 2017 – $304.5 million and $310.9 million, respectively). The fair value of these Notes at March 31, 2018 was determined on a discounted cash flow basis with a weighted average discount rate of 5.11 percent (December 31, 2017 – 4.63 percent).

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 March 31, 2018:

		Notional amount	Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	**11,161**	April 2018 – November 2018
Sales contracts	USD	**(11,132)**	April 2018 – October 2018

At March 31, 2018, the fair value of derivative financial instruments classified as financial assets was $0.3 million, and as financial liabilities was $0.2 million (December 31, 2017 – $0.5 million and $0.8 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of $124.4 million U.S dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2018. The following table shows the sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5 percent	USD	AUD	BRL
Earnings from foreign operations			
Earnings (loss) before income taxes	**$ 654**	**$ (58)**	**$ 41**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 24,658**	**$ 536**	**$ 135**
Financial instruments held in Canadian operations			
Earnings (loss) before income taxes	**$ (12,105)**	**$ -**	**$ -**

Interest Rate Risk

The Company's liabilities include long-term debt subject to fluctuations in interest rates. Notes outstanding at March 31, 2018 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Bank Facility, however, is subject to changes in market interest rates.

For each 1 percent change in the rate of interest on the Bank Facilities, the change in interest expense would be $1.4 million (December 31, 2017 – $1.6 million). All interest charges are recorded on the Interim Condensed Statements of Earnings as net finance costs.

Liquidity Risk

Liquidity risk is the risk that Enerflex 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 future growth targets. As at March 31, 2018, the Company held cash and cash equivalents of $209.4 million and had drawn $139.1 million against the Bank Facility, leaving it with access to $580.5 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 defined net debt to EBITDA ratio of less than 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 14:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the financial instruments has been completed on a maturity basis. The following table outlines the cash flows associated with the maturity of financial liabilities as at March 31, 2018:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 54	$ 130	$ -	$ 184
Accounts payable and accrued liabilities	278,058	-	-	278,058
Long-term debt - bank facility	-	-	139,128	139,128
Long-term debt - notes	-	-	310,645	310,645
Other long-term liabilities	-	-	15,485	15,485

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

NOTE 13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Net change in non-cash working capital and other		
Accounts receivable	**$ 15,729**	$ (139,215)
Inventories	**43,471**	(6,179)
Deferred revenue	**(29,399)**	37,928
Accounts payable and accrued liabilities, provisions, and income taxes payable	**(41,764)**	67,368
Foreign currency and other	**4,960**	1,733
	$ (7,003)	$ (38,365)

Cash paid and received during the period:

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Interest paid	**$ 841**	$ 2,372
Interest received	**(412)**	(494)
Taxes paid	**562**	4,256

Changes in liabilities arising from financing activities during the period:

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Long-term debt, opening balance	**$ 460,010**	$ 393,963
Changes from financing cash flows	**(25,619)**	(5,757)
The effect of changes in foreign exchange rates	**10,279**	(2,903)
Amortization of deferred transaction costs	**486**	369
Other changes	**(313)**	(867)
Long-term debt, closing balance	**$ 444,843**	$ 384,805

NOTE 14. REVENUE

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
Engineered Systems	**$ 270,044**	$ 247,855
Service	**74,671**	70,919
Rentals	**41,065**	36,013
Total revenue	**$ 385,780**	354,787

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

	Three months ended March 31,	
($ Canadian thousands)	**2018**	2017
United States	**$ 188,018**	$ 170,184
Canada	**97,740**	74,168
Kuwait	**21,863**	34,458
Oman	**16,074**	13,702
Argentina	**13,894**	14,146
Australia	**13,122**	9,242
Bahrain	**11,064**	11,165
Mexico	**10,452**	13,555
Brazil	**3,085**	2,693
Indonesia	**2,345**	1,772
Other	**8,123**	9,702
Total Revenue	**$ 385,780**	$ 354,787

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

($ Canadian thousands)	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 588,989	$ 61,101	$ 3,536	$ 653,626
Service	86,817	45,072	75,791	207,680
Rental	94,933	82,869	166,461	344,263
	$ 770,739	**$ 189,042**	**$ 245,788**	**$ 1,205,569**

NOTE 15. GUARANTEES, COMMITMENTS AND CONTINGENCIES

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

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

2018	$ 11,115
2019	11,744
2020	8,164
2021	6,788
2022	3,847
Thereafter	2,766
Total	$ 44,424

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

2018	$ 324,052
2019	22,889
2020	6,936

NOTE 16. 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 17. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate 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.

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

- Canada generates revenue from manufacturing (primarily compression equipment), service, and rentals;
- USA generates revenue from manufacturing natural gas compression equipment and process equipment in addition to generating revenue from product support services and contract compression rentals; and
- 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 projects.

For the three months ended March 31, 2018, the Company recognized $48.0 million of revenue from one customer in the USA segment, which represents 12.4 percent of total revenue for the period. At March 31, 2018, the accounts receivable balance for the customer was $87.6 million, which represents 20.4 percent of total accounts receivable.

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

Three months ended	Canada		USA		Rest of World		Total	
March 31,	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment revenue	**$ 101,212**	$ 77,031	**$ 197,956**	$ 203,590	**$ 96,554**	$ 85,532	**$ 395,722**	$ 366,153
Intersegment revenue	**(1,952)**	(693)	**(6,405)**	(10,410)	**(1,585)**	(263)	**(9,942)**	(11,366)
Revenue	**$ 99,260**	$ 76,338	**$ 191,551**	$ 193,180	**$ 94,969**	$ 85,269	**$ 385,780**	$ 354,787
Revenue – Engineered Systems	**84,433**	55,358	**150,876**	165,540	**34,735**	26,957	**270,044**	247,855
Revenue – Service	**12,493**	17,196	**29,079**	25,232	**33,099**	28,491	**74,671**	70,919
Revenue – Rental	**2,334**	3,784	**11,596**	2,408	**27,135**	29,821	**41,065**	36,013
Operating income (loss)	**$ 2,074**	$ (1,538)	**$ 14,745**	$ 22,644	**$ 2,646**	$ 9,235	**$ 19,465**	$ 30,341

	Canada		USA		Rest of World		Total	
As at	**Mar. 31, 2018**	Dec. 31, 2017	**Mar. 31, 2018**	Dec. 31, 2017	**Mar. 31, 2018**	Dec. 31, 2017	**Mar. 31, 2018**	Dec. 31, 2017
Segment assets	**$ 457,696**	$ 485,232	**$ 712,412**	$ 698,581	**$ 619,599**	$ 648,648	**$ 1,789,707**	$ 1,832,461
Goodwill	**88,367**	88,367	**154,681**	150,495	**336,038**	329,126	**579,086**	567,988
Corporate	**-**	-	**-**	-	**-**	-	**(289,217)**	(269,847)
Total segment assets	**$ 546,063**	$ 573,599	**$ 867,093**	$ 849,076	**$ 955,637**	$ 977,774	**$ 2,079,576**	$ 2,130,602

NOTE 18. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its Interim Condensed Financial Statements as at and for the three months ended March 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.

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	March 31, 2018 Per IAS 11, 18 and 39	Effect of Transition	March 31, 2018 Per IFRS 15 & 9
Assets				
Current assets				
Cash and cash equivalents		$ 209,434	-	$ 209,434
Accounts receivable	i, ii	410,855	19,130	429,985
Inventories	ii	180,948	(52,964)	127,984
Income taxes receivable		13,943	-	13,943
Derivative financial instruments		291	-	291
Other current assets		8,166	-	8,166
Total current assets		823,637	(33,834)	789,803
Property, plant and equipment		97,330	-	97,330
Rental equipment		478,270	-	478,270
Deferred tax assets	i, ii	50,485	(475)	50,010
Other assets		51,245	-	51,245
Intangible assets		33,832	-	33,832
Goodwill		579,086	-	579,086
Total assets		$ 2,113,885	$ (34,309)	$ 2,079,576
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 278,058	-	$ 278,058
Provisions		15,210	-	15,210
Income taxes payable		9,272	(115)	9,157
Deferred revenues	ii	154,875	(41,097)	113,778
Deferred finance income		266	-	266
Derivative financial instruments		184	-	184
Total current liabilities		457,865	(41,212)	416,653
Long-term debt		444,843	-	444,843
Deferred tax liabilities	i, ii	34,330	1,393	35,723
Other liabilities		15,485	-	15,485
Total liabilities		$ 952,523	$ (39,819)	$ 912,704
Shareholders' equity				
Share capital		$ 358,811	-	$ 358,811
Contributed surplus		654,464	-	654,464
Retained earnings	ii	48,559	5,510	54,069
Accumulated other comprehensive income		98,497	-	98,497
Total shareholders' equity before non-controlling interest		1,160,331	5,510	1,165,841
Non-controlling interest		1,031	-	1,031
Total shareholders' equity and non-controlling interest		1,161,362	5,510	1,166,872
Total liabilities and shareholders' equity		$ 2,113,885	$ (34,309)	$ 2,079,576

INTERIM CONDENSED STATEMENTS OF EARNINGS

($ Canadian thousands)	Notes		March 31, 2018 Per IAS 11, 18 and 39		Effect of Transition		March 31, 2018 Per IFRS 15 & 9
Revenue	ii	$	374,606	$	11,174	$	385,780
Cost of goods sold	ii		314,164		7,114		321,278
Gross margin	ii		60,442		4,060		64,502
Selling and administrative expenses	i		44,610		427		45,037
Operating income			15,832		3,633		19,465
Gain on disposal of property, plant and equipment			(60)		-		(60)
Equity earnings from associate and joint venture			(77)		-		(77)
Earnings before finance costs and income taxes			15,695		3,633		19,328
Net finance costs			4,984		-		4,984
Earnings before income taxes			10,711		3,633		14,344
Income taxes	i, ii		2,610		861		3,471
Net earnings		$	8,101	$	2,772	$	10,873
Net earnings attributable to:							
Controlling interest		$	7,960			$	10,732
Non-controlling interest			141				141
		$	8,101			$	10,873
Earnings per share – basic		$	0.08			$	0.12
Earnings per share – diluted		$	0.08			$	0.12
Weighted average number of shares – basic			88,549,366				88,549,366
Weighted average number of shares – diluted			88,951,130				88,951,130

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Notes		March 31, 2018 Per IAS 11, 18 and 39		Effect of Transition		March 31, 2018 Per IFRS 15 & 9
Net earnings		$	8,101	$	2,772	$	10,873
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			395		-		395
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax			33		-		33
Unrealized gain (loss) on translation of foreign denominated debt			(11,642)		-		(11,642)
Unrealized (loss) gain on translation of financial statements of foreign operations			36,912		-		36,912
Other comprehensive income		$	25,698		-	$	25,698
Total comprehensive income		$	33,799	$	2,772	$	36,571
Other comprehensive income attributable to:							
Controlling interest		$	26,133			$	26,133
Non-controlling interest			(435)				(435)
		$	25,698			$	25,698

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 by $11.2 million, as percentage-of-completion revenue is recognized from inception of a given project. Cost of goods sold increased by $7.1 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 was an increase in gross margin of $4.1 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 $19.1 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 $41.1 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.

NOTE 19. SUBSEQUENT EVENTS

Subsequent to March 31, 2018, Enerflex declared a quarterly dividend of $0.095 per share, payable on July 5, 2018, to shareholders of record on May 17, 2018.

Subsequent to quarter end, the Company entered into an agreement to sell an idle facility in Wyoming for USD $3.5 million. A letter of intent was also received on a second idle facility in Wyoming with expected proceeds of USD $6.4 million.

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

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

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

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

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

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

KEVIN REINHART [5]
Director
Calgary, AB

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

MICHAEL A. WEILL [6]
Director
Houston, TX

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

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

EXECUTIVES

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

BRADLEY BEEBE
President, Canada
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

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

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

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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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

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

ENERFLEX

2018 QUARTERLY REPORT

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