ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 2, 2019

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 consolidated financial statements for the three months ended March 31, 2019 and 2018, the Company's 2018 Annual Report, the Annual Information Form for the year ended December 31, 2018, 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 can be found in the Company's Annual Information Form for the year ended December 31, 2018 and Management Information Circular dated March 4, 2019, which are available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

($ Canadian thousands, except percentages)	Three months ended March 31, 2019	2018
Revenue	**$ 484,902**	$ 385,780
Gross margin	**88,770**	64,502
Selling and administrative expenses	**55,823**	45,037
Operating income	**32,947**	19,465
Earnings before finance costs and income taxes ("EBIT")	**33,346**	19,328
Net earnings	**$ 16,969**	$ 10,873
Key Financial Performance Indicators[1]		
Engineered Systems bookings	**$ 118,391**	$ 301,242
Engineered Systems backlog	**1,193,550**	653,626
Recurring revenue growth[2]	**20.5%**	8.2%
Gross margin as a percentage of revenue	**18.3%**	16.7%
EBIT as a percentage of revenue[3]	**9.2%**	8.3%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 55,277**	$ 40,305
Return on capital employed ("ROCE")[3]	**12.2%**	9.8%

[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 Non-GAAP Measures section.*
[2] *Recurring revenue is comprised of revenue from the Service and Rental product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature.*
[3] *Determined by taking the trailing 12-month period.*

FIRST QUARTER 2019 OVERVIEW

For the three months ended March 31, 2019:

- Enerflex generated revenue of $484.9 million, a 25.7 percent increase compared to $385.8 million in the first quarter of 2018. The quarterly revenue increase of $99.1 million is reflective of improved results across all product lines, particularly Engineered Systems revenue, which increased by $75.4 million, driven by strength in the USA segment.
- Gross margin was $88.8 million in the first quarter of 2019 compared to $64.5 million in the same period of 2018. Higher gross margin was the result of increased revenue and improved gross margin percentage. Improved gross margin percentage is due to the realization of higher margin projects included in opening backlog and the continued contributions of the Service and Rental product lines, partially offset by higher estimated costs to complete certain projects and write-down of equipment in the ROW segment. The first quarter of 2018 also included some margin erosion on certain large Engineered Systems projects.
- Incurred SG&A costs of $55.8 million in the first quarter of 2019, up from $45.0 million in the same period last year. The increase in SG&A is driven by higher compensation costs, partially offset by positive foreign exchange impacts. The higher compensation costs are driven by mark-to-market impacts on share-based compensation and increased profit share on improved operational results, as well as higher headcount in the USA and Rest of World ("ROW") segments.
- Reported EBIT of $33.3 million during the first quarter of 2019 compared to $19.3 million in the same period of 2018 due to higher gross margin, partially offset by higher SG&A costs.
- Recorded bookings of $118.4 million for three months ended March 31, 2019, a decrease of 60.7 percent from the $301.2 million recorded during the same period last year. Based on the aggressive delivery windows for new prospects and the record level of backlog that Enerflex had at the end of 2018, the Company's ability to respond to some North American projects with delivery times that met the client's needs was limited by the Company's fabrication and supply chain capacity. The Company has also seen delays in the timing of customer project approvals and a corresponding reduction in the conversion of opportunities, which has impacted bookings during the first quarter and could impact bookings over the balance of the year. Lastly, the movement in exchange rates resulted in a decrease of $21.4 million on foreign currency denominated bookings during the first quarter of 2019 compared to a $11.7 million increase in the comparative period, resulting in a $33.1 million period-over-period decrease.
- Engineered Systems backlog at March 31, 2019 was $1,193.6 million, a 16.0 percent decrease compared to the December 31, 2018 backlog of $1,420.6 million due to Engineered Systems revenue recognized in the period outpacing bookings, as well as unfavourable foreign exchange impacts on foreign currency denominated backlog.
- The Company invested $24.1 million in rental assets, largely in the USA, continuing the organic expansion of the USA contract compression fleet. Additionally, the previously announced expansion of our Houston fabrication facility is progressing on schedule, with additional capacity to be fully operational in the second quarter of 2019.
- In March 2019, the Company collected the $40.0 million U.S. dollars owing from Oman Oil Company Exploration and Production LLC ("OOCEP"), concluding this arbitration. The amounts received from OOCEP were immediately used to repay debt.
- The Company repaid $95.0 million of debt in the quarter, resulting in a bank-adjusted net debt to EBITDA ratio of 0.2:1, compared to a maximum ratio of 3:1.
- Subsequent to March 31, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on July 4, 2019, to shareholders of record on May 16, 2019.

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) transaction costs related to M&A activity; 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.

($ Canadian thousands)	Three months ended March 31, 2019 Total	USA	ROW	Canada
Reported EBIT	**$ 33,346**	**$ 25,822**	**$ 1,982**	**$ 5,542**
Write-down of equipment in COGS	**2,040**	**-**	**2,040**	**-**
Share-based compensation	**9,383**	**5,149**	**2,298**	**1,936**
Depreciation and amortization	**21,931**	**7,641**	**11,685**	**2,605**
Adjusted EBITDA	**$ 66,700**	**$ 38,612**	**$ 18,005**	**$ 10,083**

($ Canadian thousands)	Three months ended March 31, 2018 Total	USA	ROW	Canada
Reported EBIT	$ 19,328	$ 14,745	$ 2,687	$ 1,896
Restructuring costs in COGS and SG&A	938	-	938	-
(Gain) loss on disposal of idle facilities	60	-	(41)	101
Share-based compensation	2,434	1,209	599	629
Depreciation and amortization	20,977	5,047	12,887	3,043
Adjusted EBITDA	$ 43,737	$ 21,001	$ 17,070	$ 5,666

Adjusted EBITDA for the three months ended March 31, 2019 has increased over the same period from the prior year. Please refer to the section "Segmented Results" for additional information about results by geographic location.

Effective January 1, 2019, the Company applied IFRS 16 *Leases* ("IFRS 16") for the first time. Under IFRS 16, Enerflex recognizes a lease 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. Under the previous standard, IAS 17 *Leases*, costs relating to operating leases were recognized on a straight-line basis as COGS and SG&A. Under IFRS 16, the Company records depreciation on lease right-of-use assets as COGS and SG&A, and records an interest expense relating to the lease liability. The amount of the depreciation and interest recorded for the three months ended March 31, 2019 was $2.9 million and $0.5 million, respectively. The effect of the new standard is to increase EBIT by $0.6 million, as a portion of lease expenses are included as interest. In addition, depreciation and amortization increased by $2.9 million, resulting in a total increase in EBITDA of $3.5 million. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

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)	**2019**	Three months ended March 31, 2018
Bookings		
USA	**$ 75,145**	$ 240,448
Rest of World	**1,568**	43,960
Canada	**41,678**	16,834
Total bookings	**$ 118,391**	$ 301,242

($ Canadian thousands)		March 31, 2019		December 31, 2018
Backlog				
USA	**$**	**765,746**	$	930,595
Rest of World		**50,198**		75,210
Canada		**377,606**		414,816
Total backlog	**$**	**1,193,550**	$	1,420,621

Bookings in the first quarter of 2019 were lower than the same period of 2018, due in part to the aggressive delivery windows for new prospects and the record level of backlog that Enerflex had at the end of 2018, as the Company's ability to respond to some North American projects with delivery times that met the client's needs was limited by the Company's fabrication and supply chain capacity. The Company has also seen delays in the timing of customer project approvals and a corresponding reduction in the conversion of opportunities, which has impacted bookings during the first quarter and could impact bookings over the balance of the year, as well as unfavourable foreign exchange impacts. The Company previously communicated the expectation that quarterly bookings in 2019 would be more in line with historical activity in the Outlook section of the 2018 Annual Report, noting that the conversion of opportunities into bookings and backlog had moderated to start 2019.

Backlog at March 31, 2019 was lower than at December 31, 2018 due to Engineered Systems revenue recognized outpacing bookings in the quarter, as well as unfavourable foreign exchange impacts on foreign currency denominated backlog. The balance of $1,193.6 million at March 31, 2019 provides visibility for Engineered Systems revenue through 2019 and early 2020.

The movement in exchange rates resulted in a decrease of $21.4 million during the first quarter of 2019 on foreign currency denominated bookings, compared to an increase of $11.7 million to the same period of 2018.

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 ("BOOM") and integrated turnkey projects; and
- Canada generates revenue from manufacturing, service, and rentals.

USA SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2019		2018
Engineered Systems Bookings	$	**75,145**	$	240,448
Engineered Systems Backlog		**765,746**		448,536
Segment revenue	$	**304,891**	$	197,956
Intersegment revenue		**(12,374)**		(6,405)
Revenue	$	**292,517**	$	191,551
Revenue – Engineered Systems	$	**239,994**	$	150,876
Revenue – Service	$	**35,843**	$	29,079
Revenue – Rental	$	**16,680**	$	11,596
Operating income	$	**25,841**	$	14,745
EBIT	$	**25,822**	$	14,745
EBITDA	$	**33,463**	$	19,792
Segment revenue as a % of total revenue		**60.3%**		49.7%
Recurring revenue growth		**29.1%**		47.2%
Operating income as a % of segment revenue		**8.8%**		7.7%
EBIT as a % of segment revenue		**8.8%**		7.7%
EBITDA as a % of segment revenue		**11.4%**		10.3%

In the first quarter of 2019, bookings of $75.1 million decreased by $165.3 million or 68.7 percent compared to the same period in the prior year, predominantly due to delays in the timing of customer project approvals and a corresponding reduction in the conversion of opportunities, as well as unfavourable foreign exchange impacts. 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 $101.0 million in the first quarter of 2019 compared to the same period of 2018. 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 2019 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 organic growth of the contract compression fleet.

Operating income was higher in the first quarter of 2019 compared to the prior year by $11.1 million, due to higher revenues across all product lines and improved gross margin performance, partially offset by higher SG&A costs. Increases in SG&A were driven by increased compensation on a larger workforce and mark-to-market impacts on share-based compensation.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended March 31, 2019	2018
Engineered Systems Bookings	**$ 1,568**	$ 43,960
Engineered Systems Backlog	**50,198**	112,245
Segment revenue	**$ 101,265**	$ 96,554
Intersegment revenue	**(7,462)**	(1,585)
Revenue	**$ 93,803**	$ 94,969
Revenue – Engineered Systems	**$ 26,580**	$ 34,735
Revenue – Service	**$ 38,724**	$ 33,099
Revenue – Rental	**$ 28,499**	$ 27,135
Operating income	**$ 1,958**	$ 2,646
EBIT	**$ 1,982**	$ 2,687
EBITDA	**$ 13,667**	$ 15,574
Segment revenue as a % of total revenue	**19.4%**	24.6%
Recurring revenue growth	**11.6%**	3.3%
Operating income as a % of segment revenue	**2.1%**	2.8%
EBIT as a % of segment revenue	**2.1%**	2.8%
EBITDA as a % of segment revenue	**14.6%**	16.4%

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 include the effect of unfavourable foreign exchange impacts on backlog.

Rest of World revenue decreased by $1.2 million in the first quarter of 2019 compared to the same period in the prior year, driven by lower Engineered Systems revenues, partially offset by higher Service and Rental revenues. Engineered Systems revenue in the quarter was down due to a lower opening backlog, while Service and Rental revenues were higher due to higher activity levels in Australia and improved performance in Latin America, respectively.

Operating income decreased by $0.7 million in the first quarter of 2019 compared to the same period of 2018. The current quarter decrease is driven by lower revenues for the segment and higher SG&A costs, partially offset by improved gross margin performance in the quarter when compared to the prior year. Gross margin for the quarter was negatively impacted by higher estimated costs to complete certain projects and write-down of equipment, while the first quarter of 2018 included some margin erosion and project delays for a large project. SG&A costs have increased from the prior year due to increased compensation on a larger workforce and mark-to-market impacts on share-based compensation, 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 March 31, 2019		2018
Engineered Systems Bookings	**$**	**41,678**	$	16,834
Engineered Systems Backlog		**377,606**		92,845
Segment revenue	**$**	**108,398**	$	101,212
Intersegment revenue		**(9,816)**		(1,952)
Revenue	**$**	**98,582**	$	99,260
Revenue – Engineered Systems	**$**	**78,888**	$	84,433
Revenue – Service	**$**	**16,949**	$	12,493
Revenue – Rental	**$**	**2,745**	$	2,334
Operating income	**$**	**5,148**	$	2,074
EBIT	**$**	**5,542**	$	1,896
EBITDA	**$**	**8,147**	$	4,939
Segment revenue as a % of total revenue		**20.3%**		25.7%
Recurring revenue growth		**32.8%**		(29.3)%
Operating income as a % of segment revenue		**5.2%**		2.1%
EBIT as a % of segment revenue		**5.6%**		1.9%
EBITDA as a % of segment revenue		**8.3%**		5.0%

Bookings have increased to $41.7 million from $16.8 million a year ago, driven by several project wins in the quarter. Backlog of $377.6 million includes work associated with two significant project wins from the prior year. Based on the aggressive delivery windows for new prospects and the record level of backlog that Enerflex had at the end of 2018, the Company's ability to respond to some projects with delivery times that met the client's needs was limited by the Company's fabrication and supply chain capacity. As such, the Company was unable to secure some near-term opportunities in Canada, which impacted bookings during the first quarter and could impact bookings over the balance of the year.

Revenue decreased by $0.7 million for the first quarter of 2019 compared to the same period of 2018. This decrease was driven by lower Engineered Systems revenue as a result of weaker bookings seen in the first half of 2018, partially offset by higher Service revenue due to increased parts sales.

The Canadian segment recorded an operating income of $5.1 million for the first quarter of 2019 compared to $2.1 million over the same period in 2018. The increase in operating income is due to higher gross margin on improved project margins. For the first quarter of 2019, SG&A costs were consistent with the comparable period in 2018. The Company continues to closely monitor SG&A costs in response to an uncertain Canadian business environment.

INCOME TAXES

Income tax expense totaled $12.0 million or 41.4 percent of earnings before tax for the three months ended March 31, 2019 compared to $3.5 million or 24.2 percent of earnings before tax in the same period of 2018. Income tax expense for the first quarter of 2019 was higher primarily due to the exchange rate effects on tax bases and an increase in earnings before tax, partially offset by the effect 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, as well as 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. Record bookings and backlog in the second half of 2018 provide visibility for Engineered Systems revenue through 2019 and early 2020. However, the Company experienced lower bookings activity in the first quarter of 2019 as the Company's ability to respond to some North American projects with delivery times that met the client's needs was limited by the Company's fabrication and supply chain capacity. The Company has also seen delays in the timing of customer project approvals and a corresponding reduction in the conversion of opportunities, which impacted bookings during the first quarter and could impact bookings over the balance of the year. The Company expects quarterly bookings for the remainder of 2019 to trend closer to historical activity. 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.

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 and ROW segments, but remains disciplined in keeping the appropriate levels of staffing.

In the near term, Enerflex has a positive outlook supported by the record opening 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, and egress issues in the Permian, as well as the lack of consistent access to market causing unpredictable pricing differentials 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 the industry's investment in 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 240,000 horsepower, providing a valuable recurring revenue source that the Company intends to continue to grow and invest in through 2019. Given the current and anticipated future project requirements, the Company has been 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. Enerflex was awarded two 10-year BOOM projects in the fourth quarter of 2018, in addition to being awarded an additional 10-year BOOM contract in Latin America in the third quarter of 2018 and commencing operations on a previously awarded 10-year BOOM project in Latin America in the first quarter of 2018.

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, Bolivia, Brazil, and Colombia and mid- to longer-term prospects in Mexico. In the first quarter of 2019, Enerflex agreed to a long-term operations and maintenance agreement with a major producer in Bolivia. Previously, 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 commenced operations on a previously awarded 10-year 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 December 2019 and June 2020 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. The new President of Mexico 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 of 2018 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 its 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 organic expansion of the contract compression fleet has allowed Enerflex to increase revenues from the Rental product line, while the larger fleet 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 increase recurring revenue by 10 percent annually.

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, 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.

($ Canadian thousands)	Three months ended March 31, 2019	2018
EBITDA		
EBIT	**$ 33,346**	$ 19,328
Depreciation and amortization	**21,931**	20,977
EBITDA	**$ 55,277**	$ 40,305
Recurring Revenue		
Service	**$ 91,516**	$ 74,671
Rental	**47,924**	41,065
Total Recurring Revenue	**$ 139,440**	$ 115,736
ROCE		
Trailing 12-month EBIT	**$ 165,697**	$ 131,989
Capital Employed - beginning of period		
Net debt	**$ 117,848**	$ 232,726
Shareholders' equity	**1,282,519**	1,134,472
	$ 1,400,367	$ 1,367,198
Capital Employed - end of period		
Net debt	**$ 38,725**	$ 235,409
Shareholders' equity	**1,270,629**	1,166,872
	$ 1,309,354	$ 1,402,281
Average Capital Employed[1]	**$ 1,363,236**	$ 1,350,465
Return on Capital Employed	**12.2%**	9.8%

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

FREE CASH FLOW

($ Canadian thousands)	Three months ended March 31, 2019	2018
Cash provided by operating activities	**$ 122,334**	$ 25,095
Net change in non-cash working capital and other	**69,004**	(7,003)
	$ 53,330	$ 32,098
Add-back:		
Net finance costs	**4,375**	4,984
Current income tax expense	**6,556**	5,794
Deduct:		
Net interest paid	**139**	(429)
Net cash taxes paid	**(9,012)**	(562)
Dividends paid	**(9,349)**	(8,411)
Net capital spending	**(37,762)**	(20,358)
Free cash flow	**$ 8,277**	$ 13,116

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at March 31, 2019 compared to December 31, 2018:

($ Canadian millions)	**Increase (Decrease)**	**Explanation**
Current assets and liabilities	$(108.8)	The decrease in current assets and liabilities is due to lower cash, accounts receivable and contract assets balances, as well as higher accounts payable and lease liabilities, partially offset by higher inventory and lower deferred revenues. Cash decreased due to repayment of debt in the quarter, while accounts receivable decreased due to collection of trade receivables and amounts owing from OOCEP and contract assets decreased due to amounts billed outpacing unbilled revenue recognized. Higher accounts payable and inventory balances are reflective of increasing activity levels. Lower deferred revenue was due to revenue recognized outpacing cash received in advance of revenue recognition.
Property, plant and equipment	$10.2	The increase in property, plant and equipment is due to additions during the quarter, partially offset by depreciation on property, plant and equipment assets.
Lease right-of-use assets	$32.3	The increase in lease right-of-use assets is due to the adoption of IFRS 16, which requires an asset to be recorded to reflect the Company's right to use an asset for a contracted period of time.
Total assets	$(98.4)	The decrease in total assets is primarily related to the decrease in non-cash working capital, including decreases in the accounts receivable and contract asset balances, partially offset by increases in property, plant and equipment and lease right-of-use assets.
Long-term debt	$(101.0)	The decrease in long-term debt is due to repayments made on the Bank Facility, and the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$(11.9)	Shareholders' equity before non-controlling interest decreased due to $23.6 million unrealized loss on translation of foreign operations, $2.4 million opening retained earnings adjustment on adoption of IFRS 16 and dividends of $9.4 million, partially offset by net earnings of $16.8 million and $6.5 million of stock option impacts.

LIQUIDITY

The Company expects that continued cash flows from operations in 2019, 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, 2019, the Company held cash and cash equivalents of $305.0 million and had cash drawings of $28.3 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $654.6 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 0.2:1 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 bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

				Three months ended March 31,
($ Canadian thousands)		**2019**		2018
Cash, beginning of period	**$**	**326,864**	$	227,284
Cash provided by (used in):				
Operating activities		**122,334**		25,095
Investing activities		**(33,488)**		(20,590)
Financing activities		**(110,132)**		(23,166)
Exchange rate changes on foreign currency cash		**(546)**		811
Cash, end of period	**$**	**305,032**	$	209,434

Operating Activities

For the three months ended March 31, 2019, as compared with the same period in 2018, 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 March 31, 2019 cash used in investing activities increased due to additions to rental equipment and property, plant and equipment.

Financing Activities

For the three months ended March 31, 2019, cash used in financing activities increased primarily due to repayments of long-term debt.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)		Revenue		Net earnings		Earnings per share – basic		Earnings per share – diluted
March 31, 2019	**$**	**484,902**	**$**	**16,969**	**$**	**0.19**	**$**	**0.19**
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

CAPITAL RESOURCES

On April 30, 2019, Enerflex had 89,472,838 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 first quarter of 2019, the Company declared a quarterly dividend of $0.105 per share.

At March 31, 2019, the Company had drawn $28.3 million against the Bank Facility (December 31, 2018 - $124.9 million). The weighted average interest rate on the Bank Facility at March 31, 2019 was 3.9 percent (December 31, 2018 – 3.5 percent).

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

($ Canadian thousands)		**March 31, 2019**		December 31, 2018
Drawings on Bank Facility	**$**	**28,253**	$	124,852
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**155,312**		158,241
Senior Notes due December 15, 2027		**123,541**		125,494
Deferred transaction costs		**(3,349)**		(3,875)
	$	**343,757**	$	444,712

At March 31, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $68.3 million, and $278.9 million thereafter.

Subsequent to March 31, 2019, Enerflex successfully renegotiated the Bank Facility, which principally served to extend the maturity date from June 30, 2022 to June 30, 2023, and voluntarily reduced the amount available under the Bank Facility from $775.0 million to $725.0 million. In addition, the Bank Facility may be increased by $150.0 million, an increase of $50.0 million from the previous quarter, at the request of the Company, subject to the lenders' consent.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited 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 unaudited 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, 2019 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

SUBSEQUENT EVENTS

Subsequent to March 31, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on July 4, 2019, to shareholders of record on May 16, 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.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		March 31, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	**$**	**305,032**	$	326,864
Accounts receivable (Note 2)		**351,834**		469,337
Contract assets (Note 2)		**137,412**		158,027
Inventories (Note 3)		**211,980**		176,206
Income taxes receivable		**7,812**		9,057
Derivative financial instruments (Note 14)		**377**		1,079
Other current assets		**11,176**		12,737
Total current assets		**1,025,623**		1,153,307
Property, plant and equipment (Note 4)		**98,926**		88,706
Rental equipment (Note 4)		**533,342**		538,489
Lease right-of-use assets (Note 5)		**32,343**		-
Deferred tax assets (Note 10)		**56,318**		53,053
Other assets		**21,622**		21,591
Intangible assets		**27,085**		28,882
Goodwill		**589,224**		598,831
Total assets	**$**	**2,384,483**	$	2,482,859
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**330,540**	$	306,859
Provisions (Note 6)		**9,584**		12,890
Income taxes payable		**7,529**		17,057
Deferred revenues (Note 7)		**305,345**		348,804
Current portion of lease liabilities (Note 9)		**14,715**		-
Deferred financing income		**154**		179
Derivative financial instruments (Note 14)		**455**		1,400
Total current liabilities		**668,322**		687,189
Long-term debt (Note 8)		**343,757**		444,712
Lease liabilities (Note 9)		**24,625**		-
Deferred tax liabilities (Note 10)		**59,371**		52,237
Other liabilities		**17,779**		16,202
Total liabilities	**$**	**1,113,854**	$	1,200,340
Shareholders' equity				
Share capital	**$**	**371,567**	$	366,120
Contributed surplus		**655,340**		654,324
Retained earnings		**123,145**		118,134
Accumulated other comprehensive income		**119,135**		142,492
Total shareholders' equity before non-controlling interest		**1,269,187**		1,281,070
Non-controlling interest		**1,442**		1,449
Total shareholders' equity and non-controlling interest		**1,270,629**		1,282,519
Total liabilities and shareholders' equity	**$**	**2,384,483**	$	2,482,859

See accompanying Notes to the interim condensed consolidated financial statements, including guarantees, commitments, and contingencies (Note 16).

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended March 31, 2019	2018
Revenue (Note 11)	**$ 484,902**	$ 385,780
Cost of goods sold	**396,132**	321,278
Gross margin	**88,770**	64,502
Selling and administrative expenses	**55,823**	45,037
Operating income	**32,947**	19,465
Gain (loss) on disposal of property, plant and equipment (Note 4)	**5**	(60)
Equity earnings (loss) from associate	**394**	(77)
Earnings before finance costs and income taxes	**33,346**	19,328
Net finance costs (Note 13)	**4,375**	4,984
Earnings before income taxes	**28,971**	14,344
Income taxes (Note 10)	**12,002**	3,471
Net earnings	**$ 16,969**	$ 10,873
Net earnings attributable to:		
Controlling interest	**$ 16,829**	$ 10,732
Non-controlling interest	**140**	141
	$ 16,969	$ 10,873
Earnings per share – basic	**$ 0.19**	$ 0.12
Earnings per share – diluted	**$ 0.19**	$ 0.12
Weighted average number of shares – basic	**89,200,065**	88,549,366
Weighted average number of shares – diluted	**89,701,528**	88,951,130

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

($ Canadian thousands)	Three months ended March 31, 2019	2018
Net earnings	**$ 16,969**	$ 10,873
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	**(509)**	395
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**496**	33
Unrealized gain (loss) on translation of foreign denominated debt	**1,244**	(11,642)
Unrealized gain (loss) on translation of financial statements of foreign operations	**(24,735)**	36,912
Other comprehensive income (loss)	**$ (23,504)**	$ 25,698
Total comprehensive income (loss)	**$ (6,535)**	$ 36,571
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ (23,357)**	$ 26,133
Non-controlling interest	**(147)**	(435)
	$ (23,504)	$ 25,698

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

($ Canadian thousands)	Three months ended March 31, 2019	2018
Operating Activities		
Net earnings	**$ 16,969**	$ 10,873
Items not requiring cash and cash equivalents:		
Depreciation and amortization	**21,931**	20,977
Equity earnings from associate and joint venture	**(394)**	77
Deferred income taxes (Note 10)	**5,446**	(2,323)
Share-based compensation expense (Note 12)	**9,383**	2,434
(Gain) loss on sale of property, plant and equipment (Note 4)	**(5)**	60
	53,330	32,098
Net change in non-cash working capital and other (Note 15)	**69,004**	(7,003)
Cash provided by operating activities	**$ 122,334**	$ 25,095
Investing Activities		
Additions to:		
Property, plant and equipment (Note 4)	**$ (14,966)**	$ (1,907)
Rental equipment (Note 4)	**(24,072)**	(18,865)
Proceeds on disposal of:		
Property, plant and equipment (Note 4)	**24**	109
Rental equipment (Note 4)	**1,252**	305
Change in other assets	**4,274**	(232)
Cash used in investing activities	**$ (33,488)**	$ (20,590)
Financing Activities		
Repayment of long-term debt (Note 15)	**$ (101,476)**	$ (15,654)
Lease liability repayment (Note 9)	**(3,672)**	-
Dividends	**(9,349)**	(8,411)
Stock option exercises	**4,365**	899
Cash used in financing activities	**$ (110,132)**	$ (23,166)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (546)**	$ 811
Decrease in cash and cash equivalents	**(21,832)**	(17,850)
Cash and cash equivalents, beginning of period	**326,864**	227,284
Cash and cash equivalents, end of period	**$ 305,032**	$ 209,434

See accompanying Notes to the interim condensed consolidated financial statements.

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
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	-	-	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
At January 1, 2019	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment (Note 19)	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	16,829	-	-	-	16,829	140	16,969
Other comprehensive income (loss)	-	-	-	(23,344)	(13)	(23,357)	(23,357)	(147)	(23,504)
Effect of stock option plans	5,447	1,016	-	-	-	-	6,463	-	6,463
Dividends	-	-	(9,389)	-	-	-	(9,389)	-	(9,389)
At March 31, 2019	**$ 371,567**	**$ 655,340**	**$ 123,145**	**$ 120,219**	**$ (1,084)**	**$ 119,135**	**$ 1,269,187**	**$ 1,442**	**$ 1,270,629**

See accompanying Notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED 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 unaudited interim condensed 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 May 2, 2019.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three months ended March 31, 2019 and 2018 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, 2018. Accordingly, these unaudited interim condensed consolidated 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 unaudited interim condensed consolidated 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, 2019, the Company applied IFRS 16 *Leases* for the first time - replacing IAS 17 *Leases*. There have been no other significant changes in accounting policies compared to those described in annual consolidated financial statements for the year ended December 31, 2018. Adjustments made on transition to the new standards are detailed in Note 19.

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 is effective for annual periods beginning on or after January 1, 2019. Management has elected to adopt IFRS 16 using the modified retrospective approach and has included an adjustment to opening balances upon adoption to reflect the Company's financial position at January 1, 2019 had the new standard been applied in prior periods.

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

A contract is, or 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. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- *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;*
- *The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period; and*
- *The Company has the right to direct the use of the identified asset.*

Upon adoption, the Company recognized a lease 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 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 lease 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 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. Generally, the Company uses the incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or rate, 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 lease liability is measured at amortized cost using the effective interest method. 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 lease right-of-use asset, or is recorded on the statements of earnings if the carrying amount of the lease right-of-use asset has been reduced to zero.

The Company has elected not to recognize lease right-of-use assets and lease liabilities for short-term and low-value leases. Lease 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 effectively account for the lease right-of-use assets and lease liabilities.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

	March 31, 2019	December 31, 2018
Trade receivables	**$ 339,893**	$ 406,659
Less: allowance for doubtful accounts	**(998)**	(992)
Trade receivables, net	**$ 338,895**	$ 405,667
Other receivables[1]	**12,939**	63,670
Total accounts receivable	**$ 351,834**	$ 469,337

[1] Other receivables at December 31, 2018 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 Company 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. Enerflex collected the full amount owing, as per the rulings, in March 2019.

Aging of trade receivables:

	March 31, 2019	December 31, 2018
Current to 90 days	**$ 289,293**	$ 371,324
Over 90 days	**50,600**	35,335
	$ 339,893	$ 406,659

Movement in allowance for doubtful accounts:

		March 31, 2019		December 31, 2018
Balance, beginning of year	**$**	**992**	$	968
Impairment provision additions on receivables		**(19)**		635
Amounts written off during the year as uncollectible		**37**		(652)
Currency translation effects		**(12)**		41
Balance, end of year	**$**	**998**	$	992

Movement in contract assets:

		March 31, 2019		December 31, 2018
Balance, January 1	**$**	**158,027**	$	134,995
IFRS 15 transitional adjustment		**-**		14,657
Unbilled revenue recognized		**140,200**		565,306
Amounts billed		**(160,949)**		(575,694)
Currency translation effects		**134**		18,763
Closing balance	**$**	**137,412**	$	158,027

Amounts recognized as contract assets are typically billed to customers within three months.

NOTE 3. INVENTORIES

Inventories consisted of the following:

		March 31, 2019		December 31, 2018
Direct materials	**$**	**115,252**	$	84,021
Work-in-process		**44,711**		40,331
Repair and distribution parts		**43,981**		45,483
Equipment		**8,036**		6,371
Total inventories	**$**	**211,980**	$	176,206

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, 2019 was $396.1 million (March 31, 2018 – $321.3 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 consolidated statements of earnings and included in cost of goods sold for the three months ended March 31, 2019 was $0.6 million (March 31, 2018 – $0.6 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three months ended March 31, 2019, the Company acquired $15.0 million in property, plant and equipment (March 31, 2018 - $1.9 million) and $24.1 million in rental equipment (March 31, 2018 – $18.9 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2019 was $16.3 million (March 31, 2018 – $18.1 million), of which $15.4 million was included in cost of goods sold (March 31, 2018 – $17.0 million) and $0.9 million was included in selling and administrative expenses (March 31, 2018 – $1.1 million).

Effective January 1, 2019, the estimated useful life for certain rental assets was adjusted from 15 years to 20 years to better align with the historical lifecycle of these assets. As a result, depreciation expense for the three months ended March 31, 2019 decreased by approximately $3.3 million and the full year depreciation expense is expected to decrease by approximately $13.4 million.

NOTE 5. LEASE RIGHT-OF-USE ASSETS

		Land and buildings		Equipment		Total lease right-of-use assets
Cost						
January 1, 2019	$	23,017	$	8,968	$	31,985
Additions		1,154		2,042		3,196
Currency translation effects		38		33		71
March 31, 2019	**$**	**24,209**	**$**	**11,043**	**$**	**35,252**
Accumulated depreciation						
January 1, 2019	$	-	$	-	$	-
Depreciation charge		(1,938)		(963)		(2,901)
Currency translation effects		(4)		(4)		(8)
March 31, 2019	**$**	**(1,942)**	**$**	**(967)**	**$**	**(2,909)**
Net book value – March 31, 2019	**$**	**22,267**	**$**	**10,076**	**$**	**32,343**

NOTE 6. PROVISIONS

		March 31, 2019		December 31, 2018
Warranty provision	**$**	**8,485**	$	9,720
Legal provision		**1,099**		1,121
Onerous lease provision		**-**		2,049
	$	**9,584**	$	12,890

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. Upon adoption of IFRS 16 on January 1, 2019, the Company elected to use the practical expedient in IFRS 16.C10(b), which allows a lessee to rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review at the date of initial application of the new standard. The value of lease right-of-use assets at the date of initial application was then adjusted by the amount of these provisions for onerous leases. The balance of the provision as of December 31, 2018, subsequently recognized against lease right-of-use assets, was $0.2 million for Canada and $1.8 million for Australia.

NOTE 7. DEFERRED REVENUES

		March 31, 2019		December 31, 2018
Balance, January 1	$	348,804	$	143,177
IFRS 15 transitional adjustment		-		(33,954)
Cash received in advance of revenue recognition		103,000		705,468
Revenue subsequently recognized		(140,046)		(479,934)
Currency translation effects		(6,413)		14,047
Closing balance	$	305,345	$	348,804

Amounts recognized as deferred revenues are typically recognized into revenue within six months.

NOTE 8. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2022 (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 senior unsecured notes ("Notes") was as follows:

		March 31, 2019		December 31, 2018
Drawings on Bank Facility	$	28,253	$	124,852
Notes due June 22, 2021		40,000		40,000
Notes due December 15, 2024		155,312		158,241
Notes due December 15, 2027		123,541		125,494
Deferred transaction costs		(3,349)		(3,875)
	$	343,757	$	444,712

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2019 was 3.9 percent (December 31, 2018 – 3.5 percent). At March 31, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $68.3 million, and $278.9 million thereafter.

Subsequent to March 31, 2019, Enerflex successfully renegotiated the Bank Facility, which principally served to extend the maturity date from June 30, 2022 to June 30, 2023, and voluntarily reduced the amount available under the Bank Facility from $775.0 million to $725.0 million. In addition, the Bank Facility may be increased by $150.0 million, an increase of $50.0 million from the previous quarter, at the request of the Company, subject to the lenders' consent.

NOTE 9. LEASE LIABILITIES

		March 31, 2019
Balance, January 1	$	39,438
Additions		3,196
Payments made against lease liabilities		(3,672)
Lease interest incurred		529
Currency translation effects and other		(151)
Closing balance	$	39,340
Current portion of lease liabilities		14,715
Non-current portion of lease liabilities		24,625
	$	39,340

In addition to the lease payments made above, the Company paid $0.2 million relating to short-term and low-value leases which were expensed as incurred. During the three months ended March 31, 2019 the Company also paid $0.3 million in variable lease payments not included in the measurement of lease liabilities, of which $0.1 million was included in cost of goods sold and $0.2 million was included in selling and administrative expenses. Interest expense on lease liabilities was $0.5 million for the three months ended March 31, 2019. Total cash outflow for leases for the three months ended March 31, 2019 was $4.0 million.

Future minimum lease payments under non-cancellable leases were as follows:

		March 31, 2019
2019 (excluding the three months ended March 31, 2019)	$	13,504
2020		11,575
2021		9,526
2022		5,091
2023		1,946
Thereafter		2,917
	$	44,559
Less:		
Imputed interest		4,287
Short-term leases		868
Low value leases		64
	$	39,340

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,		2019		2018
Current income taxes	$	6,556	$	5,794
Deferred income taxes		5,446		(2,323)
	$	12,002	$	3,471

(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,		2019		2018
Earnings before income taxes	$	28,971	$	14,344
Canadian statutory rate		27.0%		27.0%
Expected income tax provision	$	7,822	$	3,873
Add (deduct):				
Exchange rate effects on tax basis		3,233		(4,407)
Earnings taxed in foreign jurisdictions		648		3,629
Amounts not deductible (taxable) for tax purposes		440		392
Impact of accounting for associates and joint ventures		(144)		(17)
Other		3		1
Income tax expense from continuing operations	$	12,002	$	3,471

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 (March 31, 2018 – 15.0 percent) and the provincial income tax rate of 12.0 percent (March 31, 2018 – 12.0 percent).

NOTE 11. REVENUE

Three months ended March 31,		2019		2018
Engineered Systems	$	345,462	$	270,044
Service		91,516		74,671
Rentals		47,924		41,065
Total revenue	$	484,902	$	385,780

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

Three months ended March 31,		2019		2018
United States	$	283,157	$	188,018
Canada		91,789		97,740
Oman		25,893		16,074
Australia		22,058		13,122
Nigeria		14,639		2,343
Bahrain		11,017		11,064
Mexico		11,000		10,452
Colombia		6,826		1,479
Argentina		4,337		13,894
Indonesia		4,060		2,345
Brazil		2,671		3,085
Other		7,455		26,164
Total revenue	$	484,902	$	385,780

The following table outlines the Company's unsatisfied performance obligations, by product line, as at March 31, 2019:

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	1,120,098	$	73,452	$	-	$	1,193,550
Service		81,934		71,614		143,347		296,895
Rental		128,118		100,029		257,246		485,393
	$	1,330,150	$	245,095	$	400,593	$	1,975,838

NOTE 12. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Three months ended March 31,		2019		2018
Equity settled share-based payments	$	2,098	$	605
Cash settled share-based payments		7,285		1,829
Share-based compensation expense	$	9,383	$	2,434

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

The company did not grant any CPT, PSEs, PSUs, RSUs 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, 2019 included in current liabilities was $9.2 million (December 31, 2018 – $3.9 million) and in other long-term liabilities was $14.7 million (December 31, 2018 – $12.5 million).

(b) Equity-Settled Share-Based Payments

	March 31, 2019			December 31, 2018		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**3,662,698**	**$**	**14.74**	3,556,575	$	**14.03**
Granted	-		-	885,404		**16.20**
Exercised[1]	**(355,319)**		**12.28**	(543,223)		**12.08**
Forfeited	-		-	(228,058)		**15.83**
Expired	-		-	(8,000)		**11.66**
Options outstanding, end of period	**3,307,379**	**$**	**15.00**	3,662,698	$	**14.74**
Options exercisable, end of period	**1,200,590**	**$**	**14.68**	1,555,909	$	**14.13**

[1]The weighted average share price of Options at the date of exercise for the three months ended March 31, 2019 was $19.45 (March 31, 2018 - $16.14).

The following table summarizes options outstanding and exercisable at March 31, 2019:

	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	1,133,234	3.40	$	12.33	551,908	2.87	$	12.11
$13.81 – $15.94	1,003,116	4.18		15.33	420,185	2.54		14.75
$15.95 – $20.75	1,171,029	5.38		17.31	228,497	2.36		20.75
Total	**3,307,379**	**4.34**	**$**	**15.00**	**1,200,590**	**2.66**	**$**	**14.68**

(c) Cash-Settled Share-Based Payments

During three months ended March 31, 2019, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $0.6 million (March 31, 2018 – $0.7 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2019	645,713	$	14.01
Granted	29,945		19.42
In lieu of dividends	3,972		16.32
Vested	-		-
DSUs outstanding, March 31, 2019	**679,630**	**$**	**14.26**

NOTE 13. FINANCE COSTS AND INCOME

Three months ended March 31,		2019		2018
Finance Costs				
Short and long-term borrowings	**$**	**5,227**	$	5,398
Interest on lease liability		**529**		-
Total finance costs	**$**	**5,756**	$	5,398
Finance Income				
Bank interest income	**$**	**1,356**	$	381
Income from finance leases		**25**		33
Total finance income	**$**	**1,381**	$	414
Net finance costs	**$**	**4,375**	$	4,984

NOTE 14. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2019 were designated in the same manner as they were at December 31, 2018. 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, 2019 was $318.9 million and $328.6 million, respectively (December 31, 2018 – $323.7 million and $318.0 million, respectively). The fair value of these Notes at March 31, 2019 was determined on a discounted cash flow basis with a weighted average discount rate of 4.6 percent (December 31, 2018 – 5.4 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, 2019:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**29,064**	April 2019 – November 2019
Sales contracts	USD	**(30,970)**	April 2019 – December 2019
Purchase contracts	EUR	**286**	April 2019 – June 2019
U.S. Dollar Denominated Contracts			
Purchase contracts	EUR	**3,091**	May 2019

At March 31, 2019, the fair value of derivative financial instruments classified as financial assets was $0.4 million, and as financial liabilities was $0.5 million (December 31, 2018 – $1.1 million and $1.4 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 $63.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2019. 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 before income taxes	$	1,462	$	46	$	31
Financial instruments held in foreign operations						
Other comprehensive income	$	24,418	$	977	$	254
Financial instruments held in Canadian operations						
Earnings before income taxes	$	(9,769)	$	-	$	-

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 March 31, 2019 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 would be $0.3 million. All interest charges are recorded on the annual consolidated statements of earnings as finance costs.

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 March 31, 2019, the Company held cash and cash equivalents of $305.0 million and had drawn $28.3 million against the Bank Facility, leaving it with access to $654.6 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 0.2:1 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 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 March 31, 2019:

		Less than 3 months		3 months to 1 year		Greater than 1 year		Total
Derivative financial instruments								
Foreign currency forward contracts	$	321	$	134	$	-	$	455
Accounts payable and accrued liabilities		330,540		-		-		330,540
Long-term debt - Bank Facility		-		-		28,253		28,253
Long-term debt - Notes		-		-		318,853		318,853
Other long-term liabilities		-		-		17,779		17,779

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 15. SUPPLEMENTAL CASH FLOW INFORMATION

Three months ended March 31,		2019		2018
Net change in non-cash working capital and other				
Accounts receivable and contract assets	$	138,118	$	15,729
Inventories		(35,774)		43,471
Deferred revenue		(43,459)		(29,399)
Accounts payable and accrued liabilities, provisions, and income taxes payable		10,847		(41,764)
Foreign currency and other		(728)		4,960
	$	69,004	$	(7,003)

Cash paid and received during the period:

Three months ended March 31,		2019		2018
Interest paid – short- and long-term borrowings	$	682	$	841
Interest paid – lease liabilities		529		-
Total interest paid	$	1,211	$	841
Interest received		1,350		412
Taxes paid		9,038		562
Taxes received		26		-

Changes in liabilities arising from financing activities during the period:

Three months ended March 31,		2019		2018
Long-term debt, opening balance	$	444,712	$	460,010
Changes from financing cash flows		(94,950)		(25,619)
The effect of changes in foreign exchange rates		(6,531)		10,279
Amortization of deferred transaction costs		521		486
Other changes		5		(313)
Long-term debt, closing balance	$	343,757	$	444,843

NOTE 16. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

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.

The Company has purchase obligations over the next three years as follows:

2019	$	376,406
2020		7,779
2021		1,515

NOTE 17. 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 18. 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 three months ended March 31, 2019, the Company had no individual customers which accounted for more than 10 percent of its revenue. For the three months ended March 31, 2018, the Company recognized $48.0 million of revenue from one customer in the USA segment, which represented 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 represented 20.4 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.

Three months ended	USA		Rest of World		Canada		Total	
March 31,	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment revenue	**$ 304,891**	$ 197,956	**$ 101,265**	$ 96,554	**$ 108,398**	$ 101,212	**$ 514,554**	$ 395,722
Intersegment revenue	**(12,374)**	(6,405)	**(7,462)**	(1,585)	**(9,816)**	(1,952)	**(29,652)**	(9,942)
Revenue	**$ 292,517**	$ 191,551	**$ 93,803**	$ 94,969	**$ 98,582**	$ 99,260	**$ 484,902**	$ 385,780
Revenue – Engineered Systems	**239,994**	150,876	**26,580**	34,735	**78,888**	84,433	**345,462**	270,044
Revenue – Service	**35,843**	29,079	**38,724**	33,099	**16,949**	12,493	**91,516**	74,671
Revenue – Rental	**16,680**	11,596	**28,499**	27,135	**2,745**	2,334	**47,924**	41,065
Operating income	**$ 25,841**	$ 14,745	**$ 1,958**	$ 2,646	**$ 5,148**	$ 2,074	**$ 32,947**	$ 19,465

As at	USA		Rest of World		Canada		Total	
	Mar. 31, 2019	Dec. 31, 2018	**Mar. 31, 2019**	Dec. 31, 2018	**Mar. 31, 2019**	Dec. 31, 2018	**Mar. 31, 2019**	Dec. 31, 2018
Segment assets	**$ 990,307**	$ 990,819	**$ 591,516**	$ 676,676	**$ 528,031**	$ 490,135	**$ 2,109,854**	$ 2,157,630
Goodwill	**162,781**	166,179	**338,076**	344,285	**88,367**	88,367	**589,224**	598,831
Corporate	**-**	-	**-**	-	**-**	-	**(314,595)**	(273,602)
Total segment assets	**$ 1,153,088**	$ 1,156,998	**$ 929,592**	$ 1,020,961	**$ 616,398**	$ 578,502	**$ 2,384,483**	$ 2,482,859

NOTE 19. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its interim condensed consolidated financial statements as at and for the three months ended March 31, 2019, the Company has adjusted the opening retained earnings balance reported previously in the financial statements as at and for the year ended December 31, 2018 for the adoption of IFRS 16. In addition, results reported under IFRS 16 differ from results that would have been reported under the previous standard. A reconciliation of the Company's interim condensed consolidated statements of financial position, earnings, comprehensive income, and cash flows under both the new and previous standards is set out in the following tables and accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	March 31, 2019 Per IAS 17	Effect of Transition	March 31, 2019 Per IFRS 16
Assets				
Current assets				
Cash and cash equivalents		$ 305,032	$ -	$ 305,032
Accounts receivable		351,834	-	351,834
Contract assets		137,412	-	137,412
Inventories		211,980	-	211,980
Income taxes receivable		7,812	-	7,812
Derivative financial instruments		377	-	377
Other current assets		11,176	-	11,176
Total current assets		1,025,623	-	1,025,623
Property, plant and equipment		98,926	-	98,926
Rental equipment		533,342	-	533,342
Lease right-of-use assets	i	-	32,343	32,343
Deferred tax assets	i	55,458	860	56,318
Other assets		21,622	-	21,622
Intangible assets		27,085	-	27,085
Goodwill		589,224	-	589,224
Total assets		$ 2,351,280	$ 33,203	$ 2,384,483
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 330,540	$ -	$ 330,540
Provisions		9,584	-	9,584
Income taxes payable	i	7,504	25	7,529
Deferred revenues		305,345	-	305,345
Current portion of lease liabilities	i	-	14,715	14,715
Deferred finance income		154	-	154
Derivative financial instruments		455	-	455
Total current liabilities		653,582	14,740	668,322
Long-term debt		343,757	-	343,757
Lease liabilities	i	-	24,625	24,625
Deferred tax liabilities		59,371	-	59,371
Other liabilities		21,614	(3,835)	17,779
Total liabilities		$ 1,078,324	$ 35,530	$ 1,113,854
Shareholders' equity				
Share capital		$ 371,567	$ -	$ 371,567
Contributed surplus		655,340	-	655,340
Retained earnings	i	125,472	(2,327)	123,145
Accumulated other comprehensive income		119,135	-	119,135
Total shareholders' equity before non-controlling interest		1,271,514	(2,327)	1,269,187
Non-controlling interest		1,442	-	1,442
Total shareholders' equity and non-controlling interest		1,272,956	(2,327)	1,270,629
Total liabilities and shareholders' equity		$ 2,351,280	$ 33,203	$ 2,384,483

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Notes		March 31, 2019 Per IAS 17		Effect of Transition		March 31, 2019 Per IFRS 16
Revenue		$	484,902	$	-	$	484,902
Cost of goods sold	i		396,384		(252)		396,132
Gross margin			88,518		252		88,770
Selling and administrative expenses	i		56,212		(389)		55,823
Operating income			32,306		641		32,947
Gain on disposal of property, plant and equipment			5		-		5
Equity earnings from associate and joint venture			394		-		394
Earnings before finance costs and income taxes			32,705		641		33,346
Net finance costs	i		3,851		524		4,375
Earnings before income taxes			28,854		117		28,971
Income taxes	i		11,952		50		12,002
Net earnings		$	16,902	$	67	$	16,969
Net earnings attributable to:							
Controlling interest		$	16,762			$	16,829
Non-controlling interest			140				140
		$	16,902			$	16,969
Earnings per share – basic		$	0.19			$	0.19
Earnings per share – diluted		$	0.19			$	0.19
Weighted average number of shares – basic			89,200,065				89,200,065
Weighted average number of shares – diluted			89,701,528				89,701,528

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Notes	March 31, 2019 Per IAS 17	Effect of Transition	March 31, 2019 Per IFRS 16
Net earnings		$ 16,902	$ 67	$ 16,969
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		(509)	-	(509)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		496	-	496
Unrealized gain (loss) on translation of foreign denominated debt		1,244	-	1,244
Unrealized (loss) gain on translation of financial statements of foreign operations		(24,735)	-	(24,735)
Other comprehensive income		$ (23,504)	$ -	$ (23,504)
Total comprehensive income		$ (6,602)	$ 67	$ (6,535)
Other comprehensive income attributable to:				
Controlling interest		$ (23,357)	-	$ (23,357)
Non-controlling interest		(147)	-	(147)
		$ (23,504)	67	$ (23,504)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Notes	March 31, 2019 Per IAS 17	Effect of Transition	March 31, 2019 Per IFRS 16
Operating Activities				
Net earnings		$ 16,902	$ 67	$ 16,969
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	19,030	2,901	21,931
Equity earnings from associate and joint venture		(394)	-	(394)
Deferred income taxes		5,446	-	5,446
Share-based compensation expense		9,383	-	9,383
Gain on sale of property, plant and equipment		(5)	-	(5)
		50,362	2,968	53,330
Net change in non-cash working capital and other	i	68,300	704	69,004
Cash provided by operating activities		$ 118,662	$ 3,672	$ 122,334
Investing Activities				
Additions to:				
Property, plant and equipment		$ (14,966)	$ -	$ (14,966)
Rental equipment		(24,072)	-	(24,072)
Proceeds on disposal of:				
Property, plant and equipment		24	-	24
Rental equipment		1,252	-	1,252
Change in other assets		4,274	-	4,274
Cash used in investing activities		$ (33,488)	$ -	$ (33,488)
Financing Activities				
Repayment of long-term debt		$ (101,476)	$ -	$ (101,476)
Lease liability repayment	i	-	(3,672)	(3,672)
Dividends		(9,349)	-	(9,349)
Stock option exercises		4,365	-	4,365
Cash (used in) provided by financing activities		$ (106,460)	$ (3,672)	$ (110,132)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (546)	$ -	$ (546)
Increase in cash and cash equivalents		(21,832)	-	(21,832)
Cash and cash equivalents, beginning of period		326,864	-	326,864
Cash and cash equivalents, end of period		$ 305,032	$ -	$ 305,032

NOTES TO THE RECONCILIATIONS

i. Leases

Under IFRS 16, contractual obligations under lease contracts are required to be recorded as lease liabilities, with a corresponding asset representing the value provided to the Company for the right to use the assets included in the contract for the duration of the lease term. Lease right-of-use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date of the lease. In addition to the lease right-of-use assets and lease liabilities recorded at January 1, 2019, the Company has recorded an adjustment to opening retained earnings resulting from the asymmetry between depreciation of the lease right-of-use assets and the repayment of the lease liabilities.

Adoption of IFRS 16 has resulted in changes to timing and classification of expenses arising from lease contracts. Under IAS 17, lease expenses were recorded on a straight-line basis of the life of the lease. Under IFRS 16, the expense recorded relating to a lease includes the depreciation of the lease right-of-use asset associated with the lease and an interest component for the implied cost of borrowing the underlying asset, as well as variable lease payments made and any short-term and low-value leases which were expensed as incurred. The depreciation of the lease right-of-use asset is recorded on a straight-line basis over the term of the lease, however the amount of the interest component of the lease recorded in net finance costs is determined based on the remaining lease liability and will therefore decrease over the term of the lease as the lease liability is paid.

Adoption of IFRS 16 has also resulted in changes to classification of cash flows, namely increased depreciation and amortization as a result of the depreciation of the lease right-of-use asset and the financing cash flow resulting from repayment of lease liabilities.

The Company elected to apply IFRS 16 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. The resulting impact of adoption of the new standard recorded as an adjustment to opening retained earnings on January 1, 2019 was:

Lease right-of-use assets	$	31,985
Deferred tax assets		672
Lease liabilities		(39,438)
Other liabilities		4,352
Retained earnings adjustment	$	2,429

The retained earnings adjustment is the result of asymmetry between depreciation of the lease 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 lease 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.

NOTE 20. SUBSEQUENT EVENTS

Subsequent to March 31, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on July 4, 2019, to shareholders of record on May 16, 2019.

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

H. STANLEY MARSHALL [2,3]
Director
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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

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

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Email: inquiries@astfinancial.com | **Web:** astfinancial.com/ca-en

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

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

INVESTOR RELATIONS

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

ENERFLEX

2019 **QUARTERLY REPORT**

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