ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED JUNE 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 8, 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 and six months ended June 30, 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 June 30, **2019**	Three months ended June 30, 2018	Six months ended June 30, **2019**	Six months ended June 30, 2018
Revenue	**$ 541,874**	$ 404,848	**$ 1,026,776**	$ 790,628
Gross margin	**110,302**	72,324	**199,072**	136,826
Selling and administrative expenses	**47,085**	44,031	**102,908**	89,068
Operating income	**63,217**	28,293	**96,164**	47,758
Earnings before finance costs and income taxes ("EBIT")	**64,001**	28,541	**97,347**	47,869
Net earnings	**$ 40,649**	$ 20,367	**$ 57,618**	$ 31,240
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 170,508**	$ 373,174	**$ 288,899**	$ 674,416
Engineered Systems backlog	**974,395**	749,251	**974,395**	749,251
Recurring revenue growth[2]	**23.3%**	11.4%	**21.9%**	9.9%
Gross margin as a percentage of revenue	**20.4%**	17.9%	**19.4%**	17.3%
EBIT as a percentage of revenue[3]	**10.4%**	8.2%	**10.4%**	8.2%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 85,854**	$ 49,891	**$ 141,131**	$ 90,196
Return on capital employed ("ROCE")[3]	**14.6%**	9.3%	**14.6%**	9.3%

[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. Growth in recurring revenue is calculated on a period-over-period basis.

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

SECOND QUARTER 2019 OVERVIEW

For the three months ended June 30, 2019:

- Enerflex generated revenue of $541.9 million, a 33.8 percent increase compared to $404.8 million in the second quarter of 2018. The quarterly revenue increase of $137.0 million is reflective of improved results across all product lines, particularly Engineered Systems revenue, which increased by $107.4 million due to projects in the USA and Canada segments. In addition, the Service and Rental product lines experienced significant increases over the prior year with increased service activity levels and the organic expansion of the contract compression fleet in the USA. The Company aims to drive stable earnings growth by securing long-term contracts for these recurring revenue product lines.
- Gross margin was $110.3 million in the second quarter of 2019 compared to $72.3 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 strong project execution, 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 in the Rest of World ("ROW") segment.
- Incurred SG&A costs of $47.1 million in the second quarter of 2019, up from $44.0 million in the same period last year. The increase in SG&A is driven by increased compensation resulting from higher headcount and increased profit share on improved operational results, partially offset by mark-to-market impacts on share-based compensation.
- Reported EBIT of $64.0 million during the second quarter compared to $28.5 million in the same period of 2018 due to higher gross margin, partially offset by higher SG&A costs.
- Engineered Systems bookings were $170.5 million for three months ended June 30, 2019, a decrease of 54.3 percent from the $373.2 million recorded during the same period last year. Bookings decreased in the quarter due to reduced spending in key global basins. Limitations on meeting aggressive product delivery windows experienced in the first quarter have been largely resolved in the second quarter. The movement in exchange rates resulted in a decrease of $13.7 million on foreign currency denominated backlog during the second quarter of 2019, compared to a $12.2 million increase in the comparable period, resulting in a $25.9 million period-over-period decrease.
- The Company invested $61.2 million in rental assets, largely in the USA, continuing the organic expansion of the USA contract compression fleet, which has grown by 50.9 percent on a horsepower basis in the last year and by over 80 percent since the acquisition of the contract compression platform in July 2017.
- During the quarter, Marc Rossiter, Executive Vice President and Chief Operating Officer succeeded J. Blair Goertzen as Enerflex's President and Chief Executive Officer. In addition, Ben Park, Enerflex's Vice President, Corporate Controller has been appointed interim Chief Financial Officer ("CFO") following the resignation of D. James Harbilas as Executive Vice President and CFO.
- Subsequent to June 30, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on October 3, 2019, to shareholders of record on August 22, 2019.

For the six months ended June 30, 2019:

- Enerflex generated revenue of $1,026.8 million, a 29.9 percent increase compared to $790.6 million in the first six months of 2018. The increase of $236.1 million is the result of improved results across all product lines, led by Engineered Systems revenue which increased by $182.8 million on continued progress of projects in the USA and Canada segments.
- Gross margin was $199.1 million in the first six months of 2019 compared to $136.8 million in the same period of 2018. Improved gross margin was the result of increased revenue and higher gross margin percentage. Gross margin percentage improved due to strong project execution, 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 a 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 $102.9 million in the first six months of 2019, up from $89.1 million in the same period last year. The increase in SG&A is driven by higher compensation costs and third-party services, partially offset by positive foreign exchange and other income impacts. The higher compensation costs are driven by higher headcount in the USA and ROW segments, increased profit share on improved operational results and share-based compensation costs due to mark-to-market impacts and executive departures.
- Reported EBIT of $97.3 million during the first six months of 2019 compared to $47.9 million in the same period of 2018 due to higher gross margin, partially offset by higher SG&A costs.

- Recorded Engineered Systems bookings of $288.9 million for six months ended June 30, 2019, a decrease of 57.2 percent from the $674.4 million recorded during the same period last year. The movement in exchange rates resulted in a decrease of $35.1 million on foreign currency denominated backlog during the first half of 2019 compared to a $23.9 million increase in the comparative period, resulting in a $59.0 million period-over-period decrease.
- Engineered Systems backlog at June 30, 2019 was $974.4 million, a 31.4 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.

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.

				Three months ended June 30, 2019
($ Canadian thousands)	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 64,001**	**$ 49,832**	**$ 2,843**	**$ 11,326**
Gain on disposal of idle facilities	**(434)**	**-**	**-**	**(434)**
Share-based compensation	**(1,906)**	**(1,050)**	**(638)**	**(218)**
Depreciation and amortization	**21,853**	**8,367**	**10,990**	**2,496**
Adjusted EBITDA	**$ 83,514**	**$ 57,149**	**$ 13,195**	**$ 13,170**

				Three months ended June 30, 2018
($ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	$ 28,541	$ 18,826	$ 10,937	$ (1,222)
Restructuring costs in COGS and SG&A	1,429	-	-	1,429
Gain on disposal of idle facilities	(253)	(253)	-	-
Share-based compensation	380	400	437	(457)
Depreciation and amortization	21,350	6,416	13,468	1,466
Adjusted EBITDA	$ 51,447	$ 25,389	$ 24,842	$ 1,216

				Six months ended June 30, 2019
($ Canadian thousands)	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 97,347**	**$ 75,654**	**$ 4,825**	**$ 16,868**
Write-down of equipment in COGS	**2,040**	**-**	**2,040**	**-**
Gain on disposal of idle facilities	**(434)**	**-**	**-**	**(434)**
Share-based compensation	**7,477**	**4,099**	**1,660**	**1,718**
Depreciation and amortization	**43,784**	**16,008**	**22,675**	**5,101**
Adjusted EBITDA	**$ 150,214**	**$ 95,761**	**$ 31,200**	**$ 23,253**

($ Canadian thousands)		Total		USA		ROW		Six months ended June 30, 2018 Canada
Reported EBIT	$	47,869	$	33,571	$	13,624	$	674
Restructuring costs in COGS and SG&A		2,367		-		938		1,429
(Gain) loss on disposal of idle facilities		(193)		(253)		(41)		101
Share-based compensation		2,814		1,609		1,036		169
Depreciation and amortization		42,327		11,463		26,355		4,509
Adjusted EBITDA	$	95,184	$	46,390	$	41,912	$	6,882

Adjusted EBITDA for the three and six months ended June 30, 2019 has increased over the same periods 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 and six months ended June 30, 2019 was $3.2 million and $6.1 million and $0.5 million and $1.1 million, respectively. The effect of the new standard is to increase EBIT for the three and six months ended June 30, 2019 by $0.7 million and $1.3 million, as a portion of lease expenses are included as interest. The resulting increase in EBITDA for the three and six months ended June 30, 2019 was $3.9 million and $7.4 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 Engineered Systems bookings and backlog by reporting segment for the following periods:

($ Canadian thousands)		**2019**		Three months ended June 30, 2018		**2019**		Six months ended June 30, 2018
Bookings								
USA	**$**	**96,713**	$	302,156	**$**	**171,858**	$	542,604
Rest of World		**14,996**		23,951		**16,564**		67,911
Canada		**58,799**		47,067		**100,477**		63,901
Total bookings	**$**	**170,508**	$	373,174	**$**	**288,899**	$	674,416

($ Canadian thousands)		**June 30, 2019**		December 31, 2018
Backlog				
USA	**$**	**599,418**	$	930,595
Rest of World		**40,315**		75,210
Canada		**334,662**		414,816
Total backlog	**$**	**974,395**	$	1,420,621

Engineered Systems bookings in the second quarter and first half of 2019 were lower than the same periods of 2018, due in part to reduced spending across the industry, as well as aggressive delivery windows for new prospects in the first quarter of 2019. Limitations on meeting aggressive product delivery windows experienced in the first quarter have been largely resolved in the second quarter. In certain instances, the Company's ability to respond to projects with delivery times that met the customers' needs was limited by the Company's fabrication and supply chain capacity. Any increases in capital spending by the natural gas industry in the second half of 2019 will result in additional Engineered Systems opportunities.

Backlog at June 30, 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 $974.4 million at June 30, 2019 provides visibility for Engineered Systems revenue through 2019 and early 2020.

The movement in exchange rates resulted in a decrease of $13.7 million and $35.1 million during the second quarter and first half of 2019 on foreign currency denominated backlog, compared to an increase of $12.2 million and $23.9 million to the same periods 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, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. 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 both custom and standard natural gas compression and processing equipment and electric power solutions, as well as providing after-market mechanical service and parts distribution, and compression and power generation rentals.

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2019	2018	Six months ended June 30, 2019	2018
Engineered Systems bookings	**$ 96,713**	$ 302,156	**$ 171,858**	$ 542,604
Engineered Systems backlog	**599,418**	578,501	**599,418**	578,501
Segment revenue	**$ 337,411**	$ 221,433	**$ 642,302**	$ 419,389
Intersegment revenue	**(10,343)**	(2,232)	**(22,717)**	(8,637)
Revenue	**$ 327,068**	$ 219,201	**$ 619,585**	$ 410,752
Revenue – Engineered Systems	**$ 263,041**	$ 172,191	**$ 503,035**	$ 323,067
Revenue – Service	**$ 44,800**	$ 34,824	**$ 80,643**	$ 63,903
Revenue – Rental	**$ 19,227**	$ 12,186	**$ 35,907**	$ 23,782
Operating income	**$ 49,832**	$ 18,574	**$ 75,673**	$ 33,319
EBIT	**$ 49,832**	$ 18,826	**$ 75,654**	$ 33,571
EBITDA	**$ 58,199**	$ 25,242	**$ 91,662**	$ 45,034
Segment revenue as a % of total revenue	**60.4%**	54.1%	**60.3%**	52.0%
Recurring revenue growth	**36.2%**	46.4%	**32.9%**	46.7%
Operating income as a % of segment revenue	**15.2%**	8.5%	**12.2%**	8.1%
EBIT as a % of segment revenue	**15.2%**	8.6%	**12.2%**	8.2%
EBITDA as a % of segment revenue	**17.8%**	11.5%	**14.8%**	11.0%

Engineered Systems bookings of $96.7 million in the second quarter of 2019 represent a decrease of $205.4 million or 68.0 percent compared to the same period in the prior year, predominantly due to decreased customer spending, as well as unfavourable foreign exchange impacts. While key basins in this region, namely the Permian, are experiencing temporary egress issues for gas and liquids, Enerflex expects the effects of these dynamics to ease in upcoming periods, with material Permian egress relief expected by early 2020.

Revenue increased by $107.9 million and $208.8 million in the second quarter and first half of 2019 compared to the same periods of 2018. Engineered Systems revenue improved 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 periods. Service revenues increased over the same periods from the prior year due to higher activity, while Rental revenues increased as a result of the organic growth of the contract compression fleet, which has grown by 50.9 percent on a horsepower basis in the last year. The Company has experienced continued strength in demand for after-market service and contract compression in key basins in the USA and sees a solid pipeline of opportunities for growth in those businesses.

Operating income was higher in the second quarter and first half of 2019 compared to the prior year by $31.3 million and $42.4 million, due to higher revenues across all product lines and improved gross margin performance on strong project execution, partially offset by higher SG&A costs. Increases in SG&A were driven by higher compensation on a larger workforce and increased profit share on improved operational results.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2019	2018	Six months ended June 30, 2019	2018
Engineered Systems Bookings	**$ 14,996**	$ 23,951	**$ 16,564**	$ 67,911
Engineered Systems Backlog	**40,315**	84,587	**40,315**	84,587
Segment revenue	**$ 91,821**	$ 116,958	**$ 193,086**	$ 213,512
Intersegment revenue	**(113)**	(308)	**(7,575)**	(1,893)
Revenue	**$ 91,708**	$ 116,650	**$ 185,511**	$ 211,619
Revenue – Engineered Systems	**$ 20,169**	$ 51,609	**$ 46,749**	$ 86,344
Revenue – Service	**$ 40,303**	$ 36,983	**$ 79,027**	$ 70,082
Revenue – Rental	**$ 31,236**	$ 28,058	**$ 59,735**	$ 55,193
Operating income	**$ 2,869**	$ 11,091	**$ 4,827**	$ 13,737
EBIT	**$ 2,843**	$ 10,937	**$ 4,825**	$ 13,624
EBITDA	**$ 13,833**	$ 24,405	**$ 27,500**	$ 39,979
Segment revenue as a % of total revenue	**16.9%**	28.8%	**18.1%**	26.8%
Recurring revenue growth	**10.0%**	3.5%	**10.8%**	3.4%
Operating income as a % of segment revenue	**3.1%**	9.5%	**2.6%**	6.5%
EBIT as a % of segment revenue	**3.1%**	9.4%	**2.6%**	6.4%
EBITDA as a % of segment revenue	**15.1%**	20.9%	**14.8%**	18.9%

Engineered Systems 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 projects in Latin America and the Middle East, partially offset by the effect of unfavourable foreign exchange impacts on backlog.

Rest of World revenue decreased by $24.9 million and $26.1 million in the second quarter and first half of 2019 compared to the same periods 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. Service revenues increased due to higher activity levels in Australia and progress made on service agreements in Latin America. Rental revenues were higher on continued performance of long-term rental assets and the sale of idle rental units in Latin America.

Operating income decreased by $8.2 million and $8.9 million in the second quarter and first half of 2019 compared to the same periods of 2018. The current quarter decrease is driven by lower revenues and higher estimated costs to complete certain projects. The first half of 2019 was also impacted by lower revenues and higher estimated costs to complete, as well as a write-down of equipment. The comparative year includes margin erosion from the first quarter of 2018. SG&A costs for the second quarter of 2019 are consistent with the prior year, while SG&A for the first half of 2019 increased compared to 2018 due to increased compensation, partially offset by the effects of one-time restructuring activities in Australia recognized in the first quarter of 2018.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2019	2018	Six months ended June 30, 2019	2018
Engineered Systems bookings	**$ 58,799**	$ 47,067	**$ 100,477**	$ 63,901
Engineered Systems backlog	**334,662**	86,163	**334,662**	86,163
Segment revenue	**$ 122,769**	$ 70,083	**$ 231,167**	$ 171,295
Intersegment revenue	**329**	(1,086)	**(9,487)**	(3,038)
Revenue	**$ 123,098**	$ 68,997	**$ 221,680**	$ 168,257
Revenue – Engineered Systems	**$ 101,743**	$ 53,749	**$ 180,631**	$ 138,182
Revenue – Service	**$ 18,093**	$ 13,449	**$ 35,042**	$ 25,942
Revenue – Rental	**$ 3,262**	$ 1,799	**$ 6,007**	$ 4,133
Operating income	**$ 10,516**	$ (1,372)	**$ 15,664**	$ 702
EBIT	**$ 11,326**	$ (1,222)	**$ 16,868**	$ 674
EBITDA	**$ 13,822**	$ 244	**$ 21,969**	$ 5,183
Segment revenue as a % of total revenue	**22.7%**	17.1%	**21.6%**	21.2%
Recurring revenue growth	**40.1%**	(21.2)%	**36.5%**	(25.4)%
Operating income as a % of segment revenue	**8.5%**	(2.0)%	**7.1%**	0.4%
EBIT as a % of segment revenue	**9.2%**	(1.8)%	**7.6%**	0.4%
EBITDA as a % of segment revenue	**11.2%**	0.4%	**9.9%**	3.1%

Bookings have increased to $58.8 million from $47.1 million a year ago, driven by several project wins in the quarter including a power generation solution sold to a customer outside the oil and gas industry. Backlog of $334.7 million includes work associated with two significant project wins from the second half of 2018. In addition, Enerflex secured over $10.0 million of long-term service and maintenance agreements in the second quarter of 2019.

Revenue increased by $54.1 million and $53.4 million for the second quarter and first half of 2019 compared to the same periods of 2018 due to higher revenues for all product lines. Engineered Systems revenue improved due to continued progress on projects from opening backlog, while Service and Rental revenues increased due to increased parts and equipment sales.

The Canadian segment recorded an operating income of $10.5 million and $15.7 million for the second quarter and first half of 2019 compared to operating loss of $1.4 million and operating income of $0.7 million over the same periods in 2018. The increase in operating income is due to improved gross margin on higher revenue and gross margin percentage resulting from strong project execution. For the second quarter and first half of 2019, SG&A costs were consistent with the comparable periods in 2018.

INCOME TAXES

Income tax expense totaled $19.2 million or 32.1 percent and $31.2 million or 35.1 percent of earnings before tax for the three and six months ended June 30, 2019 compared to $3.1 million or 13.3 percent and $6.6 million or 17.4 percent of earnings before tax in the same periods of 2018. Income tax expense and the effective tax rate for the second quarter of 2019 were higher primarily due to an increase in earnings before tax, the revaluation of Canadian deferred tax assets due to a change in the statutory rate in Alberta, and the effect of earnings taxed in foreign jurisdictions, partially offset by exchange rate effects on tax bases and a lower statutory rate in Alberta. Income tax expense and the effective tax rate for the first half of 2019 were higher due to an increase in earnings before tax, the revaluation of Canadian deferred tax assets due to a change in the statutory rate, the effect of earnings taxed in foreign jurisdictions, and exchange rate effects on tax bases. During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted, which will reduce Enerflex's taxes in future periods. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

OUTLOOK

Demand for the Company's products and services remain dependent on strength and stability in oil and natural gas prices. Our customers typically require strong, stable prices in order to generate the reliable free cash flow needed to fund growth capital that can be directed to the Company's products and services. 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. The Company has experienced continued strength in demand for after-market service and contract compression in key basins in the USA and sees a solid pipeline of opportunities for growth in those businesses. 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.

Strength in the backlog from 2018 provides visibility for Engineered Systems revenue through 2019 and early 2020. Shale oil and gas producers in North America have made a general shift to funding growth capital expenditures from free cash flow, rather than debt. Additionally, key basins within which the Company's customers operate, namely the Permian and Montney, are experiencing temporary egress issues for gas and liquids. Enerflex expects the effects of these dynamics to ease at different speeds for the different basins, with material Permian egress relief expected by early 2020. Any increases in capital spending by the natural gas industry in the second half of 2019 will result in more Engineered Systems opportunities. The Company expects quarterly bookings for the remainder of 2019 to trend closer to historical activity, and we continue to see interest for Rentals and BOOM solutions in the USA and ROW segments.

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 continued strength in our backlog, solid execution on project work seen in recent quarters, and notable growth in the Service and Rental product lines. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political uncertainty, and consistent access to market, against the projected increases in global demand for natural gas. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which will drive 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. Enerflex has seen significant demand for both compression and processing equipment in the region, 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 affect activity levels in the Permian. Enerflex anticipates that increased takeaway capacity scheduled to come online in the second half of 2019 will offer some relief to producers, however the Company expects short-term activity levels to be steady rather than the accelerated levels of development previously seen in the region. Continued development in key 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 260,000 horsepower, providing a valuable recurring revenue source that the Company intends to continue to grow organically through 2019 and beyond. Given the current and anticipated future project requirements, the Company expanded 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 Middle East/Africa ("MEA") region and Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower. The Company continues to explore new markets and opportunities within this region in order to enhance recurring revenues, focusing on BOOM projects.

Enerflex remains cautiously optimistic about the outlook in the Latin America region as customers recover from the crash in commodity prices. The Company believes that there are near-term prospects within Argentina, Brazil, and Colombia, and mid- to longer-term prospects in Mexico. Enerflex continues to make progress on previously awarded BOOM projects in Latin America and MEA, with these projects expected to commence operations and begin generating recurring revenue in the first half of 2020. In Mexico, 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, and has seen early successes with this strategy. The 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, which may result in further growth for the Australian Service product line.

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, major project wins in the second half of 2018 provide visibility on near-term Engineered Systems revenue, and the midstream sector continues to see activity around maximizing the value of Canadian production, where possible. While the approval of certain liquified natural gas ("LNG") projects and improved sentiment surrounding the Canadian LNG industry has offered some future relief to the Canadian gas industry, management still expects activity in Canada to be 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. The Company also targets growth areas in the traditional natural gas industry, including the increasing global demand for natural gas-fired power generation. Enerflex has developed regional strategies to support its Company-wide goals.

In the USA segment, Enerflex has concentrated its efforts on key regions and basins, 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 support the development of upstream resources required to feed an expanding LNG industry. 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. Successful projects have been completed in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America, and multiple recently awarded projects are scheduled to commence operations and begin generating recurring revenue in the first half of 2020. 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 and maintenance 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 Engineered Systems 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. Engineered Systems bookings and backlog do not have a directly comparable GAAP measure.

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
EBITDA				
EBIT	**$ 64,001**	$ 28,541	**$ 97,347**	$ 47,869
Depreciation and amortization	**21,853**	21,350	**43,784**	42,327
EBITDA	**$ 85,854**	$ 49,891	**$ 141,131**	$ 90,196
Recurring Revenue				
Service	**$ 103,196**	$ 85,256	**$ 194,712**	$ 159,927
Rental	**53,725**	42,043	**101,649**	83,108
Total Recurring Revenue	**$ 156,921**	$ 127,299	**$ 296,361**	$ 243,035
ROCE				
Trailing 12-month EBIT	**$ 201,157**	$ 127,851	**$ 201,157**	$ 127,851
Capital Employed – beginning of period				
Net debt[2]	**$ 38,725**	$ 235,409	**$ 117,848**	$ 232,726
Shareholders' equity	**1,270,629**	1,166,872	**1,282,519**	1,134,472
	$ 1,309,354	$ 1,402,281	**$ 1,400,367**	$ 1,367,198
Capital Employed – end of period				
Net debt[2]	**$ 141,492**	$ 179,219	**$ 141,492**	$ 179,219
Shareholders' equity	**1,276,350**	1,190,813	**1,276,350**	1,190,813
	$ 1,417,842	$ 1,370,032	**$ 1,417,842**	$ 1,370,032
Average Capital Employed[1]	**$ 1,374,833**	$ 1,368,418	**$ 1,374,833**	$ 1,368,418
Return on Capital Employed	**14.6%**	9.3%	**14.6%**	9.3%

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

[2]*Net debt is defined as short- and long-term debt less cash and cash equivalents.*

FREE CASH FLOW

($ Canadian thousands)	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Cash provided by (used in) operating activities	**$ (17,493)**	$ 78,610	**$ 104,841**	$ 103,705
Net change in non-cash working capital and other	**(89,246)**	37,838	**(20,242)**	30,835
	$ 71,753	$ 40,772	**$ 125,083**	$ 72,870
Add-back:				
Net finance costs	**4,129**	5,044	**8,504**	10,028
Current income tax expense	**7,282**	4,207	**13,838**	10,001
Deduct:				
Net interest paid	**(8,048)**	(8,860)	**(7,909)**	(9,286)
Net cash taxes (paid) received	**(2,975)**	7,024	**(11,987)**	6,462
Dividends paid	**(9,389)**	(8,418)	**(18,738)**	(16,829)
Net capital spending	**(72,476)**	(14,263)	**(110,238)**	(34,621)
Free cash flow	**$ (9,724)**	$ 25,506	**$ (1,447)**	$ 38,625

For the three and six months ended June 30, 2019 free cash flow decreased compared to the same periods in 2018. This decrease was primarily due to investment in the rental fleet, which totaled $61.2 million and $85.2 million for the second quarter and first half of 2019.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at June 30, 2019 compared to December 31, 2018:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$(94.9)	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 and expenditures on direct material inventory, rental equipment and property, plant and equipment, 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 on projects for which cash was received prior to December 31, 2018.
Property, plant and equipment	$11.0	The increase in property, plant and equipment is due to additions during the year, primarily the expansion of the Houston fabrication facility partially offset by depreciation on property, plant and equipment assets.
Rental equipment	$29.9	The increase in rental equipment is due to additions during the year, partially offset by depreciation and the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated rental equipment.
Lease right-of-use assets	$32.8	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	$(145.3)	The decrease in total assets is primarily related to the decreases in cash, non-cash working capital, including decreases in the accounts receivable and contract asset balances, partially offset by increases in property, plant and equipment, rental equipment and lease right-of-use assets.
Long-term debt	$(79.3)	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.
Lease liabilities	$25.1	The increase in long-term lease liabilities is due to the adoption of IFRS 16, which requires future cash amounts owing under leases to be recorded and presented on the statement of financial position.
Shareholders' equity before non-controlling interest	$(6.1)	Shareholders' equity before non-controlling interest decreased due to $50.0 million unrealized loss on translation of foreign operations, $2.4 million opening retained earnings adjustment on adoption of IFRS 16 and dividends of $18.8 million, partially offset by $57.4 million net earnings and $7.7 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 June 30, 2019, the Company held cash and cash equivalents of $223.9 million and had cash drawings of $54.9 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $615.0 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 0.5:1 compared to a maximum ratio of 3:1, and an interest coverage of 17:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)		Three months ended June 30, 2019		2018		Six months ended June 30, 2019		2018
Cash, beginning of period	**$**	**305,032**	$	209,434	**$**	**326,864**	$	227,284
Cash provided by (used in):								
Operating activities		**(17,493)**		78,610		**104,841**		103,705
Investing activities		**(72,524)**		(13,584)		**(106,012)**		(34,174)
Financing activities		**9,061**		31,282		**(101,071)**		8,116
Exchange rate changes on foreign currency cash		**(132)**		96		**(678)**		907
Cash, end of period	**$**	**223,944**	$	305,838	**$**	**223,944**	$	305,838

Operating Activities

For the three months ended June 30, 2019, as compared with the same period in 2018, cash used in operating activities increased primarily due to changes in non-cash working capital, partially offset by improved net earnings. For the six months ended June 30, 2019, cash provided by operating activities increased compared to 2018 due to increased net earnings, partially offset by changes in non-cash working capital.

Investing Activities

For the three and six months ended June 30, 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 June 30, 2019, cash provided by financing activities decreased primarily due to lower draws on long-term debt. For the six months ended June 30, 2019, cash used in financing activities increased compared to 2018 due to repayment of long-term debt.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)		**Revenue**		**Net earnings**		**Earnings per share – basic**		**Earnings per share – diluted**
June 30, 2019	**$**	**541,874**	**$**	**40,649**	**$**	**0.45**	**$**	**0.45**
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 July 31, 2019, Enerflex had 89,647,900 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 second quarter of 2019, the Company declared a quarterly dividend of $0.105 per share.

At June 30, 2019, the Company had drawn $54.9 million against the Bank Facility (December 31, 2018 - $124.9 million). The weighted average interest rate on the Bank Facility at June 30, 2019 was 3.8 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)		**June 30, 2019**		December 31, 2018
Drawings on Bank Facility	**$**	**54,891**	$	124,852
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**152,414**		158,241
Senior Notes due December 15, 2027		**121,609**		125,494
Deferred transaction costs		**(3,478)**		(3,875)
	$	**365,436**	$	444,712

At June 30, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $94.9 million, and $274.0 million thereafter.

During the three months ended June 30, 2019, Enerflex successfully negotiated the Bank Facility to extend the maturity date to June 30, 2023 and to voluntarily reduce 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 at the request of the Company, an increase of $50.0 million over the previous quarter, 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 consolidated financial statements, and has in place appropriate information systems, procedures, and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the unaudited interim condensed consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the six months ended June 30, 2019 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

SUBSEQUENT EVENTS

Subsequent to June 30, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on October 3, 2019, to shareholders of record on August 22, 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)		June 30, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	**$**	**223,944**	$	326,864
Accounts receivable (Note 2)		**344,252**		469,337
Contract assets (Note 2)		**137,896**		158,027
Inventories (Note 3)		**241,557**		176,206
Income taxes receivable		**6,793**		9,057
Derivative financial instruments (Note 14)		**251**		1,079
Other current assets		**7,867**		12,737
Total current assets		**962,560**		1,153,307
Property, plant and equipment (Note 4)		**99,658**		88,706
Rental equipment (Note 4)		**568,369**		538,489
Lease right-of-use assets (Note 5)		**32,767**		-
Deferred tax assets (Note 10)		**50,185**		53,053
Other assets		**22,058**		21,591
Intangible assets		**24,541**		28,882
Goodwill		**577,439**		598,831
Total assets	**$**	**2,337,577**	$	2,482,859
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**333,349**	$	306,859
Provisions (Note 6)		**10,979**		12,890
Income taxes payable		**9,506**		17,057
Deferred revenues (Note 7)		**222,837**		348,804
Current portion of lease liabilities (Note 9)		**13,754**		-
Deferred financing income		**130**		179
Derivative financial instruments (Note 14)		**815**		1,400
Total current liabilities		**591,370**		687,189
Long-term debt (Note 8)		**365,436**		444,712
Lease liabilities (Note 9)		**25,103**		-
Deferred tax liabilities (Note 10)		**64,258**		52,237
Other liabilities		**15,060**		16,202
Total liabilities	**$**	**1,061,227**	$	1,200,340
Shareholders' equity				
Share capital	**$**	**373,388**	$	366,120
Contributed surplus		**654,736**		654,324
Retained earnings		**154,287**		118,134
Accumulated other comprehensive income		**92,531**		142,492
Total shareholders' equity before non-controlling interest		**1,274,942**		1,281,070
Non-controlling interest		**1,408**		1,449
Total shareholders' equity and non-controlling interest		**1,276,350**		1,282,519
Total liabilities and shareholders' equity	**$**	**2,337,577**	$	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)*

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands, except per share amounts)	**2019**	2018	**2019**	2018
Revenue (Note 11)	**$ 541,874**	$ 404,848	**$ 1,026,776**	$ 790,628
Cost of goods sold	**431,572**	332,524	**827,704**	653,802
Gross margin	**110,302**	72,324	**199,072**	136,826
Selling and administrative expenses	**47,085**	44,031	**102,908**	89,068
Operating income	**63,217**	28,293	**96,164**	47,758
Gain on disposal of property, plant and equipment (Note 4)	**408**	138	**413**	78
Equity earnings from associate	**376**	110	**770**	33
Earnings before finance costs and income taxes	**64,001**	28,541	**97,347**	47,869
Net finance costs (Note 13)	**4,129**	5,044	**8,504**	10,028
Earnings before income taxes	**59,872**	23,497	**88,843**	37,841
Income taxes (Note 10)	**19,223**	3,130	**31,225**	6,601
Net earnings	**$ 40,649**	$ 20,367	**$ 57,618**	$ 31,240
Net earnings attributable to:				
Controlling interest	**$ 40,536**	$ 20,308	**$ 57,365**	$ 31,040
Non-controlling interest	**113**	59	**253**	200
	$ 40,649	$ 20,367	**$ 57,618**	$ 31,240
Earnings per share – basic	**$ 0.45**	$ 0.23	**$ 0.64**	$ 0.35
Earnings per share – diluted	**$ 0.45**	$ 0.23	**$ 0.64**	$ 0.35
Weighted average number of shares – basic	**89,497,947**	88,606,207	**89,349,829**	88,577,944
Weighted average number of shares – diluted	**89,877,972**	88,941,136	**89,791,465**	88,948,815

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) *(unaudited)*

		Three months ended June 30,				Six months ended June 30,
($ Canadian thousands)		**2019**		2018		**2019**		2018
Net earnings	**$**	**40,649**	$	20,367	**$**	**57,618**	$	31,240
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		**(452)**		(372)		**(961)**		23
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense		**246**		20		**742**		53
Unrealized gain (loss) on translation of foreign denominated debt		**1,755**		(3,231)		**2,999**		(14,873)
Unrealized gain (loss) on translation of financial statements of foreign operations		**(28,300)**		15,353		**(53,035)**		52,265
Other comprehensive income (loss)	**$**	**(26,751)**	$	11,770	**$**	**(50,255)**	$	37,468
Total comprehensive income	**$**	**13,898**	$	32,137	**$**	**7,363**	$	68,708
Other comprehensive income (loss) attributable to:								
Controlling interest	**$**	**(26,604)**	$	11,869	**$**	**(49,961)**	$	38,002
Non-controlling interest		**(147)**		(99)		**(294)**		(534)
	$	**(26,751)**	$	11,770	**$**	**(50,255)**	$	37,468

See accompanying Notes to the interim condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
Operating Activities				
Net earnings	**$ 40,649**	$ 20,367	**$ 57,618**	$ 31,240
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**21,853**	21,350	**43,784**	42,327
Equity earnings from associate and joint venture	**(376)**	(110)	**(770)**	(33)
Deferred income taxes (Note 10)	**11,941**	(1,077)	**17,387**	(3,400)
Share-based compensation expense (Note 12)	**(1,906)**	380	**7,477**	2,814
Gain on sale of property, plant and equipment (Note 4)	**(408)**	(138)	**(413)**	(78)
	71,753	40,772	**125,083**	72,870
Net change in non-cash working capital and other (Note 15)	**(89,246)**	37,838	**(20,242)**	30,835
Cash provided by (used in) operating activities	**$ (17,493)**	$ 78,610	**$ 104,841**	$ 103,705
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (12,842)**	$ (1,493)	**$ (27,808)**	$ (3,400)
Rental equipment (Note 4)	**(61,166)**	(17,345)	**(85,238)**	(36,210)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)	**60**	4,522	**84**	4,631
Rental equipment (Note 4)	**1,472**	53	**2,724**	358
Change in other assets	**(48)**	679	**4,226**	447
Cash used in investing activities	**$ (72,524)**	$ (13,584)	**$ (106,012)**	$ (34,174)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 15)	**$ 21,131**	$ 39,700	**$ (80,345)**	$ 24,046
Lease liability principal repayment (Note 9)	**(3,523)**	-	**(6,666)**	-
Lease interest incurred (Note 9)	**(549)**	-	**(1,078)**	-
Dividends	**(9,389)**	(8,418)	**(18,738)**	(16,829)
Stock option exercises	**1,391**	-	**5,756**	899
Cash provided by (used in) financing activities	**$ 9,061**	$ 31,282	**$ (101,071)**	$ 8,116
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (132)**	$ 96	**$ (678)**	$ 907
Increase (decrease) in cash and cash equivalents	**(81,088)**	96,404	**(102,920)**	78,554
Cash and cash equivalents, beginning of period	**305,032**	209,434	**326,864**	227,284
Cash and cash equivalents, end of period	**$ 223,944**	$ 305,838	**$ 223,944**	$ 305,838

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	-	-	31,040	-	-	-	31,040	200	31,240
Other comprehensive income (loss)	-	-	-	37,926	76	38,002	38,002	(534)	37,468
Effect of stock option plans	1,071	654	-	-	-	-	1,725	-	1,725
Dividends	-	-	(16,830)	-	-	-	(16,830)	-	(16,830)
At June 30, 2018	$ 358,767	$ 654,730	$ 65,959	$ 111,251	$ (885)	$ 110,366	$ 1,189,822	$ 991	$ 1,190,813
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	-	-	57,365	-	-	-	57,365	253	57,618
Other comprehensive income (loss)	-	-	-	(49,742)	(219)	(49,961)	(49,961)	(294)	(50,255)
Effect of stock option plans	7,268	412	-	-	-	-	7,680	-	7,680
Dividends	-	-	(18,783)	-	-	-	(18,783)	-	(18,783)
At June 30, 2019	**$ 373,388**	**$ 654,736**	**$ 154,287**	**$ 93,821**	**$ (1,290)**	**$ 92,531**	**$ 1,274,942**	**$ 1,408**	**$ 1,276,350**

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 August 8, 2019.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 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) and equipment (including 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 lease term or the useful life of the underlying asset, where appropriate.

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 reasonably 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:

	June 30, 2019	December 31, 2018
Trade receivables	**$ 325,624**	$ 406,659
Less: allowance for doubtful accounts	**(1,075)**	(992)
Trade receivables, net	**$ 324,549**	$ 405,667
Other receivables[1]	**19,703**	63,670
Total accounts receivable	**$ 344,252**	$ 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:

	June 30, 2019	December 31, 2018
Current to 90 days	**$ 262,709**	$ 371,324
Over 90 days	**62,915**	35,335
	$ 325,624	$ 406,659

Movement in allowance for doubtful accounts:

	June 30, 2019	December 31, 2018
Balance, beginning of year	$ 992	$ 968
Impairment provision additions on receivables	116	635
Amounts written off during the year as uncollectible	-	(652)
Currency translation effects	(33)	41
Balance, end of year	$ 1,075	$ 992

Movement in contract assets:

	June 30, 2019	December 31, 2018
Balance, January 1	$ 158,027	$ 134,995
IFRS 15 transitional adjustment	-	14,657
Unbilled revenue recognized	298,629	565,306
Amounts billed	(315,912)	(575,694)
Currency translation effects	(2,848)	18,763
Closing balance	$ 137,896	$ 158,027

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

NOTE 3. INVENTORIES

Inventories consisted of the following:

	June 30, 2019	December 31, 2018
Direct materials	$ 139,949	$ 84,021
Work-in-process	42,058	40,331
Repair and distribution parts	41,898	45,483
Equipment	17,652	6,371
Total inventories	$ 241,557	$ 176,206

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three and six months ended June 30, 2019 was $431.6 million and $827.7 million (June 30, 2018 – $332.5 million and $653.8 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statements of earnings and included in cost of goods sold for the three and six months ended June 30, 2019 was $1.7 million and $2.2 million (June 30, 2018 – $1.5 million and $2.0 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and six months ended June 30, 2019, the Company acquired $12.8 million and $27.8 million in property, plant and equipment (June 30, 2018 - $1.5 million and $3.4 million) and $61.2 million and $85.2 million in rental equipment (June 30, 2018 – $17.3 million and $36.2 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended June 30, 2019 was $16.0 million (June 30, 2018 – $18.4 million), of which $15.1 million was included in cost of goods sold (June 30, 2018 – $17.3 million) and $0.9 million was included in selling and administrative expenses (June 30, 2018 – $1.1 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the six months ended June 30, 2019 was $32.3 million (June 30, 2018 – $36.5 million), of which $30.5 million was included in cost of goods sold (June 30, 2018 – $34.3 million) and $1.8 million was included in selling and administrative expenses (June 30, 2018 – $2.2 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 and six months ended June 30, 2019 decreased by approximately $3.3 million, and $6.6 million. The full year depreciation expense is expected to decrease by approximately $13.1 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		3,705		3,520		7,225
Disposal – end of lease term		(66)		(31)		(97)
Currency translation effects		(268)		(178)		(446)
June 30, 2019	**$**	**26,388**	**$**	**12,279**	**$**	**38,667**
Accumulated depreciation						
January 1, 2019	$	-	$	-	$	-
Depreciation charge		(4,016)		(2,053)		(6,069)
Disposal – end of lease term		66		31		97
Currency translation effects		45		27		72
June 30, 2019	**$**	**(3,905)**	**$**	**(1,995)**	**$**	**(5,900)**
Net book value – June 30, 2019	**$**	**22,483**	**$**	**10,284**	**$**	**32,767**

NOTE 6. PROVISIONS

		June 30, 2019		December 31, 2018
Warranty provision	**$**	**9,736**	$	9,720
Legal provision		**1,243**		1,121
Onerous lease provision		-		2,049
	$	**10,979**	$	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

		June 30, 2019		December 31, 2018
Balance, January 1	**$**	**348,804**	$	143,177
IFRS 15 transitional adjustment		**-**		(33,954)
Cash received in advance of revenue recognition		**224,246**		705,468
Revenue subsequently recognized		**(339,969)**		(479,934)
Currency translation effects		**(10,244)**		14,047
Closing balance	**$**	**222,837**	$	348,804

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

NOTE 8. LONG-TERM DEBT

During the three months ended June 30, 2019, Enerflex successfully negotiated the amended and restated syndicated revolving credit facility ("Bank Facility") to extend the maturity date to June 30, 2023 (the "Maturity Date") and to voluntarily reduce 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 at the request of the Company, an increase of $50.0 million over the previous quarter, subject to the lenders' consent. The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. 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:

		June 30, 2019		December 31, 2018
Drawings on Bank Facility	**$**	**54,891**	$	124,852
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**152,414**		158,241
Notes due December 15, 2027		**121,609**		125,494
Deferred transaction costs		**(3,478)**		(3,875)
	$	**365,436**	$	444,712

The weighted average interest rate on the Bank Facility for the six months ended June 30, 2019 was 3.8 percent (December 31, 2018 – 3.5 percent). At June 30, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $94.9 million, and $274.0 million thereafter.

NOTE 9. LEASE LIABILITIES

		June 30, 2019
Balance, January 1	$	39,438
Additions		7,213
Payments made against lease liabilities		(7,744)
Lease interest incurred		1,078
Currency translation effects and other		(1,128)
Closing balance	$	38,857
Current portion of lease liabilities	$	13,754
Non-current portion of lease liabilities		25,103
	$	38,857

In addition to the lease payments made above, during the three and six months ended June 30, 2019 the Company paid $0.9 million and $1.2 million relating to short-term and low-value leases which were expensed as incurred. During the three and six months ended June 30, 2019 the Company also paid $0.8 million and $1.1 million in variable lease payments not included in the measurement of lease liabilities, of which $0.1 million and $0.2 million was included in cost of goods sold and $0.7 million and $0.9 million was included in selling and administrative expenses. Interest expense on lease liabilities was $0.5 million and $1.1 million for the three and six months ended June 30, 2019. Total cash outflow for leases for the three and six months ended June 30, 2019 was $6.3 million and $10.5 million.

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

		June 30, 2019
2019 (excluding the six months ended June 30, 2019)	$	8,571
2020		12,187
2021		10,360
2022		5,966
2023		2,426
Thereafter		3,922
	$	43,432
Less:		
Imputed interest		4,229
Short-term leases		329
Low value leases		17
	$	38,857

NOTE 10. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Current income taxes	**$ 7,282**	$ 4,207	**$ 13,838**	$ 10,001
Deferred income taxes	**11,941**	(1,077)	**17,387**	(3,400)
	$ 19,223	$ 3,130	**$ 31,225**	$ 6,601

(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 June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Earnings before income taxes	**$ 59,872**	$ 23,497	**$ 88,843**	$ 37,841
Canadian statutory rate	**26.5%**	27.0%	**26.5%**	27.0%
Expected income tax provision	**$ 15,866**	$ 6,344	**$ 23,543**	$ 10,217
Add (deduct):				
Exchange rate effects on tax basis	**(1,312)**	1,032	**1,921**	(3,375)
Earnings taxed in foreign jurisdictions	**(204)**	(4,256)	**444**	(627)
Revaluation of Canadian deferred tax assets due to change in statutory rate	**5,040**	-	**5,040**	-
Amounts not deductible (taxable) for tax purposes	**118**	54	**558**	446
Impact of accounting for associates and joint ventures	**(127)**	(46)	**(271)**	(63)
Other	**(158)**	2	**(10)**	3
Income tax expense from continuing operations	**$ 19,223**	$ 3,130	**$ 31,225**	$ 6,601

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (June 30, 2018 – 15.0 percent) and the provincial income tax rate of 11.5 percent (June 30, 2018 – 12.0 percent). During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

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.

NOTE 11. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Engineered Systems	**$ 384,953**	$ 277,549	**$ 730,415**	$ 547,593
Service	**103,196**	85,256	**194,712**	159,927
Rentals	**53,725**	42,043	**101,649**	83,108
Total revenue	**$ 541,874**	$ 404,848	**$ 1,026,776**	$ 790,628

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

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
United States	**$ 277,149**	$ 213,542	**$ 560,306**	$ 401,560
Canada	**118,512**	62,150	**210,301**	159,890
Nigeria	**54,812**	3,877	**69,451**	6,220
Oman	**30,686**	30,733	**56,579**	46,807
Australia	**16,849**	18,276	**38,907**	31,398
Mexico	**11,300**	11,922	**22,300**	22,374
Bahrain	**10,743**	11,430	**21,760**	22,493
Colombia	**6,000**	8,451	**12,826**	9,930
Argentina	**6,133**	14,205	**10,470**	28,099
Indonesia	**1,916**	3,283	**5,976**	5,628
Brazil	**2,611**	2,715	**5,282**	5,800
Other	**5,163**	24,264	**12,618**	50,429
Total revenue	**$ 541,874**	$ 404,848	**$ 1,026,776**	$ 790,628

The following table outlines the Company's unsatisfied performance obligations, by product line, as at June 30, 2019:

	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 945,496	$ 28,899	$ -	$ 974,395
Service	84,580	68,515	135,126	288,221
Rental	129,665	91,814	238,026	459,505
	$ 1,159,741	**$ 189,228**	**$ 373,152**	**$ 1,722,121**

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 June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Equity settled share-based payments	**$ (173)**	$ 266	**$ 1,925**	$ 871
Cash settled share-based payments	**(1,733)**	114	**5,552**	1,943
Share-based compensation expense	**$ (1,906)**	$ 380	**$ 7,477**	$ 2,814

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 six months of 2019. 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 June 30, 2019 included in current liabilities was $5.4 million (December 31, 2018 – $3.9 million) and in other long-term liabilities was $12.4 million (December 31, 2018 – $12.5 million).

(b) Equity-Settled Share-Based Payments

	June 30, 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]	**(472,917)**	**12.17**	(543,223)	**12.08**
Forfeited	**(300,423)**	**14.98**	(228,058)	**15.83**
Expired	**-**	**-**	(8,000)	**11.66**
Options outstanding, end of period	**2,889,358**	**$ 15.14**	3,662,698	$ **14.74**
Options exercisable, end of period	**1,082,992**	**$ 14.99**	1,555,909	$ **14.13**

[1]*The weighted average share price of Options at the date of exercise for the six months ended June 30, 2019 was $18.96 (June 30, 2018 - $16.14).*

The following table summarizes options outstanding and exercisable at June 30, 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	915,739	3.48	$ 12.37	434,310	3.30	$ 12.18
$13.81 – $15.94	918,235	3.82	15.29	420,185	2.29	14.75
$15.95 – $20.75	1,055,384	5.07	17.40	228,497	2.11	20.75
Total	**2,889,358**	**4.17**	**$ 15.14**	**1,082,992**	**2.66**	**$ 14.99**

(c) Cash-Settled Share-Based Payments

During the three and six months ended June 30, 2019, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $0.4 million and $0.9 million (June 30, 2018 – $0.4 million and $1.1 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2019	645,713	$	14.01
Granted	50,857		18.37
In lieu of dividends	7,495		17.91
DSUs outstanding, June 30, 2019	**704,065**	**$**	**14.37**

NOTE 13. FINANCE COSTS AND INCOME

	Three months ended June 30,				Six months ended June 30,			
		2019		2018		**2019**		2018
Finance Costs								
Short and long-term borrowings	**$**	**4,867**	$	5,789	**$**	**10,094**	$	11,187
Interest on lease liability		**549**		-		**1,078**		-
Total finance costs	**$**	**5,416**	$	5,789	**$**	**11,172**	$	11,187
Finance Income								
Bank interest income	**$**	**1,263**	$	714	**$**	**2,619**	$	1,095
Income from finance leases		**24**		31		**49**		64
Total finance income	**$**	**1,287**	$	745	**$**	**2,668**	$	1,159
Net finance costs	**$**	**4,129**	$	5,044	**$**	**8,504**	$	10,028

NOTE 14. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at June 30, 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 June 30, 2019 was $314.0 million and $325.3 million, respectively (December 31, 2018 – $323.7 million and $318.0 million, respectively). The fair value of these Notes at June 30, 2019 was determined on a discounted cash flow basis with a weighted average discount rate of 4.3 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 June 30, 2019:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**37,368**	July 2019 – April 2020
Sales contracts	USD	**(19,680)**	July 2019 – December 2020
Purchase contracts	EUR	**191**	July 2019
U.S. Dollar Denominated Contracts			
Purchase contracts	EUR	**456**	July 2019

At June 30, 2019, the fair value of derivative financial instruments classified as financial assets was $0.3 million, and as financial liabilities was $0.8 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 June 30, 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	$ 3,943	$ 41	$ 59
Financial instruments held in foreign operations			
Other comprehensive income	$ 24,613	$ 969	$ 238
Financial instruments held in Canadian operations			
Earnings before income taxes	$ (9,826)	$ -	$ -

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 June 30, 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 $0.5 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 June 30, 2019, the Company held cash and cash equivalents of $223.9 million and had drawn $54.9 million against the Bank Facility, leaving it with access to $615.0 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio of 0.5:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 17:1 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 June 30, 2019:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 628	$ 187	$ -	$ 815
Accounts payable and accrued liabilities	333,349	-	-	333,349
Long-term debt - Bank Facility	-	-	54,891	54,891
Long-term debt - Notes	-	-	314,023	314,023
Other long-term liabilities	-	-	15,060	15,060

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 June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Net change in non-cash working capital and other				
Accounts receivable and contract assets	**$ 7,098**	$ 19,144	**$ 145,216**	$ 34,873
Inventories	**(29,577)**	(12,156)	**(65,351)**	31,315
Deferred revenue	**(82,508)**	28,492	**(125,967)**	(907)
Accounts payable and accrued liabilities, provisions, and income taxes payable	**6,181**	(33,742)	**17,028**	(75,506)
Foreign currency and other	**9,560**	36,100	**8,832**	41,060
	$ (89,246)	$ 37,838	**$ (20,242)**	$ 30,835

Cash paid and received during the period:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Interest paid – short- and long-term borrowings	**$ 8,819**	$ 9,589	**$ 9,501**	$ 10,427
Interest paid – lease liabilities	**549**	-	**1,078**	-
Total interest paid	**$ 9,368**	$ 9,589	**$ 10,579**	$ 10,427
Interest received	**(1,320)**	(729)	**(2,670)**	(1,141)
Taxes paid	**3,351**	3,893	**12,389**	4,455
Taxes received	**(376)**	(10,917)	**(402)**	(10,917)

Changes in liabilities arising from financing activities during the period:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	**2019**	2018
Long-term debt, opening balance	**$ 343,757**	$ 444,843	**$ 444,712**	$ 460,010
Changes from financing cash flows	**27,063**	32,450	**(67,887)**	6,831
The effect of changes in foreign exchange rates	**(5,255)**	7,736	**(11,786)**	18,015
Amortization of deferred transaction costs	**548**	515	**1,069**	1,001
Other changes	**(677)**	(487)	**(672)**	(800)
Long-term debt, closing balance	**$ 365,436**	$ 485,057	**$ 365,436**	$ 485,057

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	$ 285,299
2020	10,754
2021	1,846

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 Rental 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 six months ended June 30, 2019, the Company had no individual customers which accounted for more than 10 percent of its revenue. For the six months ended June 30, 2018, the Company recognized $89.9 million of revenue from one customer in the USA segment, which represented 11.4 percent of total revenue for the period. At June 30, 2018, the accounts receivable balance for the customer was $35.9 million, which represented 8.8 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, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;*
- *Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. 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 both custom and standard natural gas compression and processing equipment and electric power solutions, as well as providing after-market mechanical service and parts distribution, and compression and power generation 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 June 30,	USA 2019	USA 2018	Rest of World 2019	Rest of World 2018	Canada 2019	Canada 2018	Total 2019	Total 2018
Segment revenue	**$ 337,411**	$ 221,433	**$ 91,821**	$ 116,958	**$ 122,769**	$ 70,083	**$ 552,001**	$ 408,474
Intersegment revenue	**(10,343)**	(2,232)	**(113)**	(308)	**329**	(1,086)	**(10,127)**	(3,626)
Revenue	**$ 327,068**	$ 219,201	**$ 91,708**	$ 116,650	**$ 123,098**	$ 68,997	**$ 541,874**	$ 404,848
Revenue – Engineered Systems	**263,041**	172,191	**20,169**	51,609	**101,743**	53,749	**384,953**	277,549
Revenue – Service	**44,800**	34,824	**40,303**	36,983	**18,093**	13,449	**103,196**	85,256
Revenue – Rental	**19,227**	12,186	**31,236**	28,058	**3,262**	1,799	**53,725**	42,043
Operating income	**$ 49,832**	$ 18,574	**$ 2,869**	$ 11,091	**$ 10,516**	$ (1,372)	**$ 63,217**	$ 28,293

Six months ended June 30,	USA 2019	USA 2018	Rest of World 2019	Rest of World 2018	Canada 2019	Canada 2018	Total 2019	Total 2018
Segment revenue	**$ 642,302**	$ 419,389	**$ 193,086**	$ 213,512	**$ 231,167**	$ 171,295	**$ 1,066,555**	$ 804,196
Intersegment revenue	**(22,717)**	(8,637)	**(7,575)**	(1,893)	**(9,487)**	(3,038)	**(39,779)**	(13,568)
Revenue	**$ 619,585**	$ 410,752	**$ 185,511**	$ 211,619	**$ 221,680**	$ 168,257	**$ 1,026,776**	$ 790,628
Revenue – Engineered Systems	**503,035**	323,067	**46,749**	86,344	**180,631**	138,182	**730,415**	547,593
Revenue – Service	**80,643**	63,903	**79,027**	70,082	**35,042**	25,942	**194,712**	159,927
Revenue – Rental	**35,907**	23,782	**59,735**	55,193	**6,007**	4,133	**101,649**	83,108
Operating income	**$ 75,673**	$ 33,319	**$ 4,827**	$ 13,737	**$ 15,664**	$ 702	**$ 96,164**	$ 47,758

As at	USA Jun. 30, 2019	USA Dec. 31, 2018	Rest of World Jun. 30, 2019	Rest of World Dec. 31, 2018	Canada Jun. 30, 2019	Canada Dec. 31, 2018	Total Jun. 30, 2019	Total Dec. 31, 2018
Segment assets	**$ 927,949**	$ 990,819	**$ 592,896**	$ 676,676	**$ 551,625**	$ 490,135	**$ 2,072,470**	$ 2,157,630
Goodwill	**159,419**	166,179	**329,653**	344,285	**88,367**	88,367	**577,439**	598,831
Corporate	**-**	-	**-**	-	**-**	-	**(312,332)**	(273,602)
Total segment assets	**$ 1,087,368**	$ 1,156,998	**$ 922,549**	$ 1,020,961	**$ 639,992**	$ 578,502	**$ 2,337,577**	$ 2,482,859

NOTE 19. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its interim condensed consolidated financial statements as at and for the three and six months ended June 30, 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	June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Assets				
Current assets				
Cash and cash equivalents		$ 223,944	$ -	$ 223,944
Accounts receivable		344,252	-	344,252
Contract assets		137,896	-	137,896
Inventories		241,557	-	241,557
Income taxes receivable		6,793	-	6,793
Derivative financial instruments		251	-	251
Other current assets		7,867	-	7,867
Total current assets		962,560	-	962,560
Property, plant and equipment		99,658	-	99,658
Rental equipment		568,369	-	568,369
Lease right-of-use assets	i	-	32,767	32,767
Deferred tax assets	i	49,564	621	50,185
Other assets		22,058	-	22,058
Intangible assets		24,541	-	24,541
Goodwill		577,439	-	577,439
Total assets		$ 2,304,189	$ 33,388	$ 2,337,577
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 333,349	$ -	$ 333,349
Provisions		10,979	-	10,979
Income taxes payable	i	9,418	88	9,506
Deferred revenues		222,837	-	222,837
Current portion of lease liabilities	i	-	13,754	13,754
Deferred finance income		130	-	130
Derivative financial instruments		815	-	815
Total current liabilities		577,528	13,842	591,370
Long-term debt		365,436	-	365,436
Lease liabilities	i	-	25,103	25,103
Deferred tax liabilities		64,258	-	64,258
Other liabilities	i	18,162	(3,102)	15,060
Total liabilities		$ 1,025,384	$ 35,843	$ 1,061,227
Shareholders' equity				
Share capital		$ 373,388	$ -	$ 373,388
Contributed surplus		654,736	-	654,736
Retained earnings	i	156,742	(2,455)	154,287
Accumulated other comprehensive income		92,531	-	92,531
Total shareholders' equity before non-controlling interest		1,277,397	(2,455)	1,274,942
Non-controlling interest		1,408	-	1,408
Total shareholders' equity and non-controlling interest		1,278,805	(2,455)	1,276,350
Total liabilities and shareholders' equity		$ 2,304,189	$ 33,388	$ 2,337,577

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Notes	Three months ended June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Revenue		$ 541,874	$ -	$ 541,874
Cost of goods sold	i	431,902	(330)	431,572
Gross margin		109,972	330	110,302
Selling and administrative expenses	i	47,437	(352)	47,085
Operating income		62,535	682	63,217
Gain on disposal of property, plant and equipment		408	-	408
Equity earnings from associate and joint venture		376	-	376
Earnings before finance costs and income taxes		63,319	682	64,001
Net finance costs	i	3,575	554	4,129
Earnings before income taxes		59,744	128	59,872
Income taxes	i	18,934	289	19,223
Net earnings		$ 40,810	$ (161)	$ 40,649
Net earnings attributable to:				
Controlling interest		$ 40,697	(161)	$ 40,536
Non-controlling interest		113	-	113
		$ 40,810	(161)	$ 40,649
Earnings per share – basic		$ 0.46		$ 0.45
Earnings per share – diluted		$ 0.45		$ 0.45
Weighted average number of shares – basic		89,497,947		89,497,947
Weighted average number of shares – diluted		89,877,972		89,877,972

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Notes	Three months ended June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Net earnings		$ 40,810	$ (161)	$ 40,649
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		(452)	-	(452)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		246	-	246
Unrealized gain (loss) on translation of foreign denominated debt		1,755	-	1,755
Unrealized (loss) gain on translation of financial statements of foreign operations		(28,300)	-	(28,300)
Other comprehensive income		$ (26,751)	$ -	$ (26,751)
Total comprehensive income		$ 14,059	$ (161)	$ 13,898
Other comprehensive income attributable to:				
Controlling interest		$ (26,604)	-	$ (26,604)
Non-controlling interest		(147)	-	(147)
		$ (26,751)	-	$ (26,751)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Notes	Three months ended June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Operating Activities				
Net earnings		$ 40,810	$ (161)	$ 40,649
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	18,685	3,168	21,853
Equity earnings from associate and joint venture		(376)	-	(376)
Deferred income taxes		11,941	-	11,941
Share-based compensation expense		(1,906)	-	(1,906)
Gain on sale of property, plant and equipment		(408)	-	(408)
		68,746	3,007	71,753
Net change in non-cash working capital and other	i	(90,311)	1,065	(89,246)
Cash provided by (used in) operating activities		$ (21,565)	$ 4,072	$ (17,493)
Investing Activities				
Additions to:				
Property, plant and equipment		$ (12,842)	$ -	$ (12,842)
Rental equipment		(61,166)	-	(61,166)
Proceeds on disposal of:				
Property, plant and equipment		60	-	60
Rental equipment		1,472	-	1,472
Change in other assets		(48)	-	(48)
Cash used in investing activities		$ (72,524)	$ -	$ (72,524)
Financing Activities				
Repayment of long-term debt		$ 21,131	$ -	$ 21,131
Lease liability repayment	i	-	(3,523)	(3,523)
Lease interest incurred	i	-	(549)	(549)
Dividends		(9,389)	-	(9,389)
Stock option exercises		1,391	-	1,391
Cash provided by financing activities		$ 13,133	$ (4,072)	$ 9,061
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (132)	$ -	$ (132)
Increase in cash and cash equivalents		(81,088)	-	(81,088)
Cash and cash equivalents, beginning of period		305,032	-	305,032
Cash and cash equivalents, end of period		$ 223,944	$ -	$ 223,944

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

		Six months ended		
($ Canadian thousands, except per share amounts)	Notes	June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Revenue		$ 1,026,776	$ -	$ 1,026,776
Cost of goods sold	i	828,286	(582)	827,704
Gross margin		198,490	582	199,072
Selling and administrative expenses	i	103,649	(741)	102,908
Operating income		94,841	1,323	96,164
Gain on disposal of property, plant and equipment		413	-	413
Equity earnings from associate and joint venture		770	-	770
Earnings before finance costs and income taxes		96,024	1,323	97,347
Net finance costs	i	7,426	1,078	8,504
Earnings before income taxes		88,598	245	88,843
Income taxes	i	30,886	339	31,225
Net earnings		$ 57,712	$ (94)	$ 57,618
Net earnings attributable to:				
Controlling interest		$ 57,459	(94)	$ 57,365
Non-controlling interest		253	-	253
		$ 57,712	(94)	$ 57,618
Earnings per share – basic		$ 0.65		$ 0.64
Earnings per share – diluted		$ 0.64		$ 0.64
Weighted average number of shares – basic		89,349,829		89,349,829
Weighted average number of shares – diluted		89,791,465		89,791,465

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

		Six months ended		
($ Canadian thousands)	Notes	June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Net earnings		$ 57,712	$ (94)	$ 57,618
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		(961)	-	(961)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		742	-	742
Unrealized gain (loss) on translation of foreign denominated debt		2,999	-	2,999
Unrealized (loss) gain on translation of financial statements of foreign operations		(53,035)	-	(53,035)
Other comprehensive income		$ (50,255)	$ -	$ (50,255)
Total comprehensive income		$ 7,457	$ (94)	$ 7,363
Other comprehensive income attributable to:				
Controlling interest		$ (49,961)	-	$ (49,961)
Non-controlling interest		(294)	-	(294)
		$ (50,255)	-	$ (50,255)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

		Six months ended		
($ Canadian thousands)	Notes	June 30, 2019 Per IAS 17	Effect of Transition	June 30, 2019 Per IFRS 16
Operating Activities				
Net earnings		$ 57,712	$ (94)	$ 57,618
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	37,715	6,069	43,784
Equity earnings from associate and joint venture		(770)	-	(770)
Deferred income taxes		17,387	-	17,387
Share-based compensation expense		7,477	-	7,477
Gain on sale of property, plant and equipment		(413)	-	(413)
		119,108	5,975	125,083
Net change in non-cash working capital and other	i	(22,011)	1,769	(20,242)
Cash provided by (used in) operating activities		$ 97,097	$ 7,744	$ 104,841
Investing Activities				
Additions to:				
Property, plant and equipment		$ (27,808)	$ -	$ (27,808)
Rental equipment		(85,238)	-	(85,238)
Proceeds on disposal of:				
Property, plant and equipment		84	-	84
Rental equipment		2,724	-	2,724
Change in other assets		4,226	-	4,226
Cash used in investing activities		$ (106,012)	$ -	$ (106,012)
Financing Activities				
Repayment of long-term debt		$ (80,345)	$ -	$ (80,345)
Lease liability repayment	i	-	(6,666)	(6,666)
Lease interest incurred	i	-	(1,078)	(1,078)
Dividends		(18,738)	-	(18,738)
Stock option exercises		5,756	-	5,756
Cash used in financing activities		$ (93,327)	$ (7,744)	$ (101,071)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (678)	$ -	$ (678)
Increase in cash and cash equivalents		(102,920)	-	(102,920)
Cash and cash equivalents, beginning of period		326,864	-	326,864
Cash and cash equivalents, end of period		$ 223,944	$ -	$ 223,944

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 June 30, 2019, Enerflex declared a quarterly dividend of $0.105 per share, payable on October 3, 2019, to shareholders of record on August 22, 2019.

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

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

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

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

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

KEVIN REINHART [5]
Director
Calgary, AB

MARC E. ROSSITER
Director
President and
Chief Executive Officer
Calgary, AB

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

JUAN CARLOS VILLEGAS [4]
Director
Vitacura, RM, Chile

MICHAEL A. WEILL [6]
Director
Houston, TX

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

EXECUTIVES

BEN PARK, CPA
Interim Chief Financial Officer
Calgary, AB

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

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*

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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

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

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

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

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

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

INVESTOR RELATIONS

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

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

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

ENERFLEX

2019 **QUARTERLY REPORT**

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