ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 8, 2018

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited Interim Condensed Financial Statements for the three and nine months ended September 30, 2018, the Company's 2017 Annual Report, the Annual Information Form for the year ended December 31, 2017, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

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

FINANCIAL OVERVIEW

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands, except percentages)	**2018**	2017	**2018**	2017
Revenue	**$ 445,803**	$ 315,019	**$ 1,236,431**	$ 1,103,290
Gross margin	**89,385**	51,712	**226,211**	202,423
Selling and administrative expenses	**39,767**	38,950	**128,835**	126,556
Operating income	**49,618**	12,762	**97,376**	75,867
Earnings before finance costs and income taxes ("EBIT")	**55,570**	32,767	**103,439**	98,580
Net earnings	**$ 37,696**	$ 25,188	**$ 68,936**	$ 71,051
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 628,991**	$ 198,600	**$ 1,303,407**	$ 917,442
Engineered Systems backlog	**1,065,104**	767,865	**1,065,104**	767,865
Recurring revenue as a percentage of revenue[2]	**30.0%**	31.8%	**30.0%**	31.8%
Gross margin as a percentage of revenue	**20.1%**	16.4%	**18.3%**	18.3%
EBIT as a percentage of revenue[2, 3]	**8.9%**	4.3%	**8.9%**	4.3%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")[3]	**$ 76,039**	$ 52,993	**$ 166,235**	$ 158,938
Return on capital employed ("ROCE") [2, 3]	**10.9%**	4.6%	**10.9%**	4.6%

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

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

[3] Includes the impact of impairments.

THIRD QUARTER OF 2018 OVERVIEW

For the three months ended September 30, 2018:

- Recorded bookings of $629.0 million for three months ended September 30, 2018, a 216.7 percent increase compared to the $198.6 million recorded during the same period last year. The improvement over 2017 was primarily due to several major project bookings in the USA and Canada segments. The third quarter of 2018 represents the highest quarterly bookings in the Company's history and continues the trend of strong bookings seen in 2018 compared to 2017.
- Engineered Systems backlog at September 30, 2018 was $1,065.1 million, a 58.8 percent increase compared to the December 31, 2017 backlog of $670.8 million. Backlog at September 30, 2018 represents the highest quarterly backlog in the Company's history.
- Enerflex generated revenue of $445.8 million, a 41.5 percent increase compared to $315.0 million in the third quarter of 2017. The quarterly revenue increase of $130.8 million is reflective of improved results across all product lines, particularly Engineered Systems, which increased by $109.2 million, driven by strength in the USA segment.
- Gross margin was $89.4 million in the third quarter of 2018 compared to $51.7 million in the same period of 2017. Higher gross margin was the result of increased revenues and improved gross margin percentage, as the prior year included margin erosion on some significant projects in the USA and Canada segments. The third quarter of 2018 included higher estimated costs to complete certain projects in the ROW segment.
- Incurred SG&A costs of $39.8 million in the third quarter of 2018, up from $39.0 million in the same period last year. The increase in SG&A is driven by higher compensation costs and foreign exchange impacts in Argentina, partially offset by cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration and lower third-party costs associated with the arbitration. The higher compensation costs are driven by higher headcount in the USA segment, mark-to-market impacts on share-based compensation, and increased profit share on improved operational results.
- Reported EBIT of $55.6 million during the third quarter of 2018 compared to $32.8 million in the third quarter of 2017. Gains on disposal of property, plant and equipment ("PP&E") included in EBIT were $6.1 million compared to $19.5 million in 2017.
- Received a partial ruling related to the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $39.5 million, which is comprised of the full final milestone payment of $30.3 million, variation claims in respect of additional costs and delays in construction of $5.2 million, and interest on the outstanding amounts. The tribunal also dismissed the respondent's counterclaim for liquidated damages in its entirety. At September 30, 2018, interest on the outstanding amounts totaled $4.1 million. The earnings impact, net of tax, of $8.0 million has been recognized in the third quarter results. The allocation of costs and expenses of the proceedings will be the subject of a separate final award by the tribunal, which is expected in the first quarter of 2019.
- Positive outlook, record backlog, and continued high enquiry levels, particularly in the USA and ROW segments, provides strong line of sight on the need for additional manufacturing capacity to meet demand in these segments. Given the current and anticipated future project requirements, the Company is currently expanding the square footage of its Houston fabrication facility by 55 percent, adding approximately 100,000 square feet. This expansion will be completed during the first quarter of 2019.
- The Company invested $22.5 million in rental assets, continuing the organic expansion of the USA rental fleet, which has grown 39 percent since the acquisition of the contract compression business from Mesa Compression, LLC ("Mesa").
- Enerflex was awarded a 10-year Build-Own-Operate-Maintain ("BOOM") contract in Latin America, with an additional 10-year BOOM contract being awarded in MEA subsequent to the

quarter. During the year, the Company commenced operations on a previously awarded 10-year BOOM project in Latin America. Once fully operational these three projects will generate annualized revenue of approximately $32 million to $35 million.
- The Company repaid $59.3 million of debt in the quarter, resulting in a bank-adjusted net debt to EBITDA ratio of 0.7:1, compared to a maximum ratio of 3:1.
- As a result of the Company's backlog position, its positive outlook for activity in 2019, and strong free cash flows, the Company's Board of Directors approved an increase to its quarterly dividend to $0.105 per share subsequent to September 30, 2018. The increased dividend is payable on January 10, 2019, to shareholders of record on November 22, 2018. This new dividend amount represents a 10.5 percent increase and reiterates the Company's commitment to returning capital to shareholders. Enerflex has increased its dividend by 75.0 percent since re-emerging as a public company in 2011.

For the nine months ended September 30, 2018:
- Enerflex generated revenue of $1,236.4 million, a 12.1 percent increase compared to $1,103.3 million in the first nine months of 2017. The revenue increase of $133.1 million was due to improved results across all product lines, particularly Engineered Systems, which increased by $89.8 million, driven by strength in the USA segment.
- Gross margin was $226.2 million in the first nine months of 2018 compared to $202.4 million in the same period of 2017. Higher gross margin was the result of increased revenues, while gross margin as a percentage of revenue was consistent with 2017.
- Incurred SG&A costs of $128.8 million in the first nine months of 2018, up from $126.6 million in the same period last year. The increase in SG&A is driven by increased compensation on a larger workforce in the USA segment and increased profit share on improved operational results, as well as foreign exchange impacts in Argentina, partially offset by cost recoveries related to the OOCEP arbitration and lower third-party costs associated with the arbitration.
- Reported EBIT of $103.4 million during the first nine months of 2018 compared to $98.6 million in the same period of 2017. Gains on PP&E included in EBIT were $6.1 million compared to $22.4 million in 2017.
- Recorded bookings of $1,303.4 million for nine months ended September 30, 2018, a 42.1 percent increase compared to the $917.4 million recorded during the same period last year.

Adjusted EBITDA

The Company's results include items that are unique and items that management and users of the financial statements add back when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. Adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities; 2) restructuring activities; 3) acquisition costs; and, 4) share-based compensation. Identification of these items allows for an understanding of the underlying operations of the Company based on the current assets and structure. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

($ Canadian thousands)	Three months ended September 30, 2018 Total	Canada	USA	ROW
Reported EBIT	$ 55,570	$ 7,400	$ 29,673	$ 18,497
(Gain) loss on disposal of idle facilities	(6,015)	(3,836)	(2,179)	-
Cost recovery related to OOCEP	(9,407)	-	-	(9,407)
Share-based compensation	4,590	830	2,151	1,609
Depreciation and amortization	20,469	2,040	5,357	13,072
Adjusted EBITDA	$ 65,207	$ 6,434	$ 35,002	$ 23,771

($ Canadian thousands)	Three months ended September 30, 2017 Total	Canada	USA	ROW
Reported EBIT	$ 32,767	$ 22,068	$ 4,033	$ 6,666
(Gain) loss on disposal of idle facilities	(19,486)	(19,547)	-	61
Acquisition costs	603	-	603	-
Share-based compensation	1,089	330	379	380
Depreciation and amortization	20,226	3,193	4,102	12,931
Adjusted EBITDA	$ 35,199	$ 6,044	$ 9,117	$ 20,038

($ Canadian thousands)	Nine months ended September 30, 2018 Total	Canada	USA	ROW
Reported EBIT	$ 103,439	$ 8,074	$ 63,244	$ 32,121
Restructuring costs in COGS and SG&A	2,367	1,429	-	938
(Gain) loss on disposal of idle facilities	(6,208)	(3,735)	(2,432)	(41)
Cost recovery related to OOCEP	(9,407)	-	-	(9,407)
Share-based compensation	7,404	999	3,760	2,645
Depreciation and amortization	62,796	6,549	16,820	39,427
Adjusted EBITDA	$ 160,391	$ 13,316	$ 81,392	$ 65,683

($ Canadian thousands)	Nine months ended September 30, 2017 Total	Canada	USA	ROW
Reported EBIT	$ 98,580	$ 25,951	$ 50,913	$ 21,716
Restructuring costs in COGS and SG&A	940	452	-	488
(Gain) loss on disposal of idle facilities	(22,421)	(22,482)	17	44
Acquisition costs	1,110	-	1,110	-
Share-based compensation	7,338	1,866	2,924	2,548
Depreciation and amortization	60,358	10,127	9,713	40,518
Adjusted EBITDA	$ 145,905	$ 15,914	$ 64,677	$ 65,314

Adjusted EBITDA for the three and nine months ended September 30, 2018 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.

There were no costs related to the ongoing arbitration proceedings with OOCEP during the first nine months of 2018. The third quarter and first nine months of 2017 included approximately $3.2 million and $7.6 million, respectively, of arbitration related costs. These amounts are not adjusted for in the calculation of Adjusted EBITDA.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

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

Bookings	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Canada	**$ 201,278**	$ 43,097	**$ 265,179**	$ 317,042
USA	**361,009**	158,179	**903,613**	477,605
Rest of World	**66,704**	(2,676)	**134,615**	122,795
Total bookings	**$ 628,991**	$ 198,600	**$ 1,303,407**	$ 917,442

Backlog		
($ Canadian thousands)	**September 30, 2018**	December 31, 2017
Canada	**$ 243,383**	$ 172,918
USA	**719,241**	394,861
Rest of World	**102,480**	103,020
Total backlog	**$ 1,065,104**	$ 670,799

Bookings for the third quarter of 2018 represent the highest quarterly bookings in the Company's history. Bookings were higher in the third quarter and first nine months of 2018 compared to the same period of 2017, driven by several major project bookings in the USA and Canada segments. The Rest of World segment was also successful in booking a large project in Latin America during the first quarter of 2018.

Backlog improved from December 31, 2017 due to record bookings outpacing Engineered Systems revenue recognized in the period. The balance at September 30, 2018 represents the highest quarterly backlog in the Company's history, and the first quarter the Company has exceeded $1 billion of backlog. The trend of strengthening backlog over the past two years is reflected in a 218.1 percent increase from $334.9 million for the first quarter of 2016 to $1,065.1 million for the third quarter of 2018.

The movement in exchange rates resulted in a decrease of $13.2 million in the third quarter and an increase of $10.8 million during the first nine months of 2018 on foreign currency denominated bookings, compared to a decrease of $18.2 million and $33.8 million during the third quarter and nine months of 2017, respectively.

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 equipment and process equipment in addition to generating revenue from product support services and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), service, and rentals. In addition, the Rest of World segment has been successful in securing BOOM projects; and
- Canada generates revenue from manufacturing (primarily processing and compression equipment), service and rentals.

USA Segment Results

($ Canadian thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Engineered Systems Bookings	**$ 361,009**	$ 158,179	**$ 903,613**	$ 477,605
Engineered Systems Backlog	**719,241**	390,193	**719,241**	390,193
Segment revenue	**$ 285,138**	$ 153,720	**$ 704,527**	$ 588,471
Intersegment revenue	**(11,859)**	(523)	**(20,496)**	(14,296)
Revenue	**$ 273,279**	$ 153,197	**$ 684,031**	$ 574,175
Revenue – Engineered Systems	**$ 220,269**	$ 116,587	**$ 543,336**	$ 477,811
Revenue – Service	**$ 39,590**	$ 28,059	**$ 103,493**	$ 82,972
Revenue – Rental	**$ 13,420**	$ 8,551	**$ 37,202**	$ 13,392
Operating income	**$ 27,492**	$ 4,033	**$ 60,811**	$ 50,930
EBIT	**$ 29,673**	$ 4,033	**$ 63,244**	$ 50,913
EBITDA	**$ 35,030**	$ 8,135	**$ 80,064**	$ 60,626
Segment revenue as a % of total revenue	**61.3%**	48.6%	**55.3%**	52.0%
Recurring revenue as a % of segment revenue	**19.4%**	23.9%	**20.6%**	16.8%
Operating income as a % of segment revenue	**10.1%**	2.6%	**8.9%**	8.9%
EBIT as a % of segment revenue	**10.9%**	2.6%	**9.2%**	8.9%
EBITDA as a % of segment revenue	**12.8%**	5.3%	**11.7%**	10.6%

In the third quarter of 2018, bookings increased by $202.8 million or 128.2 percent compared to the same period in the prior year. Backlog in the USA segment is $719.2 million, which represents the highest level of backlog for this segment since the Company re-segmented to create the USA segment in 2014.

Revenue increased by $120.1 million and $109.9 million in the third quarter and the first nine months of 2018 compared to the same periods of 2017. Engineered Systems revenue increased over the prior year as a result of the realization of strong bookings seen in prior quarters and continued progress of certain large projects, as well as the impact of the stronger U.S. dollar in 2018 versus the comparative period. Service revenues increased over the same period from the prior year due to higher activity. Rental revenues increased as a result of the acquisition of the contract compression business from Mesa and the organic growth of the contract compression fleet.

Operating income was higher in the third quarter and first nine months of 2018 compared to the prior year by $23.5 million and $9.9 million respectively, due to higher revenues across all product lines and warranty provision releases due to improving warranty experience rates, partially offset by higher SG&A costs. Increases in SG&A were driven by increased compensation on a larger workforce, mark-to-market impacts on share-based compensation, and increased profit share on improved operational results.

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

Rest of World Segment Results

($ Canadian thousands)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Engineered Systems Bookings	**$ 66,704**	$ (2,676)	**$ 134,615**	$ 122,795
Engineered Systems Backlog	**102,480**	94,081	**102,480**	94,081
Segment revenue	**$ 109,245**	$ 79,539	**$ 322,757**	$ 270,694
Intersegment revenue	**(260)**	(151)	**(2,153)**	(620)
Revenue	**$ 108,985**	$ 79,388	**$ 320,604**	$ 270,074
Revenue – Engineered Systems	**$ 48,811**	$ 22,905	**$ 135,155**	$ 92,452
Revenue – Service	**$ 32,139**	$ 29,580	**$ 102,221**	$ 92,189
Revenue – Rental	**$ 28,035**	$ 26,903	**$ 83,228**	$ 85,433
Operating income	**$ 18,446**	$ 6,727	**$ 32,183**	$ 21,760
EBIT	**$ 18,497**	$ 6,666	**$ 32,121**	$ 21,716
EBITDA	**$ 31,569**	$ 19,597	**$ 71,548**	$ 62,234
Segment revenue as a % of total revenue	**24.4%**	25.2%	**25.9%**	24.5%
Recurring revenue as a % of segment revenue	**55.2%**	71.1%	**57.8%**	65.8%
Operating income as a % of segment revenue	**16.9%**	8.5%	**10.0%**	8.1%
EBIT as a % of segment revenue	**17.0%**	8.4%	**10.0%**	8.0%
EBITDA as a % of segment revenue	**29.0%**	24.7%	**22.3%**	23.0%

Bookings for the current quarter relate to multiple projects in the Middle East/Africa ("MEA") region.

Rest of World revenue increased by $29.6 million and $50.5 million in the third quarter and first nine months of 2018 compared to the same periods in the prior year, driven by higher Engineered Systems and Service revenues. Engineered Systems revenue in the quarter was higher due to projects in MEA, while Service revenues increased as a result of higher activity levels in Australia.

Operating income increased by $11.7 million and $10.4 million in the third quarter and first nine months of 2018 compared to the same periods of 2017. The current quarter increase is driven by the increase in revenues for the segment and a reduction in SG&A costs, partially offset by lower project margins in MEA resulting from higher estimated costs to complete certain projects. Year-to-date results are also impacted by margin erosion from the first quarter of 2018. SG&A costs have decreased from the prior year due to cost recoveries related to the OOCEP arbitration and lower third-party costs associated with the arbitration. Decreased SG&A resulting from OOCEP proceedings was partially offset by some negative foreign exchange impacts in Argentina and higher compensation costs driven by mark-to-market impacts on share-based compensation and increased profit share on improved operational results. Year-to-date results are also partially offset by the effects of restructuring activities in Australia recognized in the first quarter of 2018.

Canada Segment Results

($ Canadian thousands)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Engineered Systems Bookings	**$ 201,278**	$ 43,097	**$ 265,179**	$ 317,042
Engineered Systems Backlog	**243,383**	283,591	**243,383**	283,591
Segment revenue	**$ 65,307**	$ 83,356	**$ 236,602**	$ 261,081
Intersegment revenue	**(1,768)**	(922)	**(4,806)**	(2,040)
Revenue	**$ 63,539**	$ 82,434	**$ 231,796**	$ 259,041
Revenue – Engineered Systems	**$ 44,058**	$ 64,428	**$ 182,240**	$ 200,711
Revenue – Service	**$ 16,841**	$ 15,120	**$ 42,783**	$ 49,288
Revenue – Rental	**$ 2,640**	$ 2,886	**$ 6,773**	$ 9,042
Operating income (loss)	**$ 3,680**	$ 2,002	**$ 4,382**	$ 3,177
EBIT	**$ 7,400**	$ 22,068	**$ 8,074**	$ 25,951
EBITDA	**$ 9,440**	$ 25,261	**$ 14,623**	$ 36,078
Segment revenue as a % of total revenue	**14.3%**	26.2%	**18.8%**	23.5%
Recurring revenue as a % of segment revenue	**30.7%**	21.8%	**21.4%**	22.5%
Operating income (loss) as a % of segment revenue	**5.8%**	2.4%	**1.9%**	1.2%
EBIT as a % of segment revenue	**11.6%**	26.8%	**3.5%**	10.0%
EBITDA as a % of segment revenue	**14.9%**	30.6%	**6.3%**	13.9%

Bookings have increased to $201.3 million from $43.1 million a year ago, driven by several project wins in the quarter.

Revenue decreased $18.9 million and $27.2 million for the third quarter and first nine months of 2018 compared to the same periods of 2017. This decrease was driven by lower Engineered Systems revenue as a result of weaker bookings seen in prior quarters. Service revenue increased by $1.7 million in the third quarter due to parts sales, however this product line decreased by $6.5 million for first nine months of 2018 due to lower activity levels. Rental revenue decreased due to lower associated equipment sales.

The Canadian segment recorded an operating income of $3.7 million and $4.4 million for the third quarter and first nine months of 2018 compared to $2.0 million and $3.2 million over the same periods in 2017. The increase in operating income is due to decreased SG&A costs, driven by lower compensation on reduced headcount. The Company continues to closely monitor SG&A costs in response to a challenging Canadian business environment.

Included in EBIT is a gain on sale of an idle facility of $3.8 million and $3.7 million for the third quarter and first nine months of 2018 compared to a gain on sale of $19.5 million and $22.5 million for the same periods in 2017.

INCOME TAXES

Income tax expense totaled $13.3 million or 26.1 percent and $19.9 million or 22.4 percent of earnings before tax for the three and nine months ended September 30, 2018 compared to $4.3 million or 14.5 percent and $18.5 million or 20.7 percent of earnings before tax in the same periods of 2017. Income tax expense was higher primarily due to an increase in earnings before tax and the inclusion of withholding tax on dividends received from foreign subsidiaries, partially offset by the effect of earnings taxed in foreign jurisdictions. The change in the effective tax rate is primarily due to the mix of earnings taxed in foreign jurisdictions, as well as the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

OUTLOOK

The Company's products and services remain dependent on strength and stability in commodity prices. Stability and improvement in commodity prices are required to allow customers to continue to increase investment, which should translate to further demand for the Company's products and services. Record bookings and backlog in the quarter provide visibility for Engineered Systems revenue for the remainder of 2018 and into 2019, however the Company has no assurances that bookings in future quarters will continue the strong trend seen in 2018.

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

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

In the near term, Enerflex has a positive outlook supported by the record backlog and continued high enquiry levels across all regions. In the longer term, the Company continues to monitor the impacts of volatility in realized commodity prices; political uncertainty; egress issues in the Permian, which are anticipated to be resolved in the latter half of 2019; as well as the lack of consistent access to market causing pricing differentials to widen in Canada. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which could reduce demand for the Company's products and services in future periods.

Outlook by Segment

USA

The recent performance of the USA segment has been largely driven by production from shale oil and gas. The recent increase in commodity prices, along with lower corporate tax rates, has led to increased activity. The Company has seen significant demand for both compression and processing equipment in 2018, required to provide takeaway capacity in underserved resource plays and maximize the value of extracted gas. The Company continues to monitor the impact of egress issues that could impact activity levels in the Permian. The issues are anticipated to be resolved in the latter half of 2019. Continued development in these resource plays should translate to further demand for Engineered Systems products, as well as contract compression solutions to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 180,000 horsepower, which provides a valuable recurring revenue source, and the Company will continue to grow and invest in these assets for the remainder of 2018 and into 2019. Given the current and anticipated future project requirements, the Company is currently expanding its Houston fabrication facility to provide additional manufacturing capacity to meet demand in the USA and ROW segments.

Rest of World

In the Rest of World segment, the Company has seen project successes in both the MEA region and in Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 105,000 horsepower. The Company continues to explore new markets and opportunities within this region in order to enhance recurring revenues, focusing on BOOM projects, and was awarded a 10-year BOOM project subsequent to the quarter. Enerflex remains cautiously optimistic about the outlook in the Latin America region as customers recover from the crash in commodity prices. The Company believes that there are near-term prospects within Argentina, Brazil and Colombia and mid- to longer-term prospects in Mexico. The Company completed a project in Argentina's Vaca Muerta shale play during 2017 and further development opportunities exist as producers expand production in this formation. In Brazil, the Company agreed to a 10-year contract to provide a natural gas treatment facility in the quarter. In Colombia, during the first quarter, Enerflex booked an Engineered Systems project and commenced operations on a previously awarded BOOM project. In Mexico, there continues to be limited investment; however, Enerflex booked a rental contract with an independent producer during the first quarter. A portion of the contracts for the Company's fleet in Mexico will expire in June of 2019 and the Company elected not to participate in the bid process to replace those contracts. Enerflex expects to be able to redeploy those assets to potential projects in other regions with more project certainty and for stronger returns. With the Mexican presidential elections completed during the third quarter, there is some uncertainty on the impact to Energy Reform and capital investment, however the new president has expressed his desire to make Pemex 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 also well positioned to capitalize on the need for increased production due to the supply imbalance driven by higher liquefied natural gas exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will continue to increase as producers return to the minimum maintenance requirements for their assets, which may result in further growth for the Australian Service product line. The Company restructured the Australian operations in the first quarter in order to focus on these opportunities and enhance profitability in the region.

Canada

The Canadian market remains constrained by negative sentiment and the lack of consistent access to market that is causing pricing differentials to widen in Canada. However a major project win in the quarter provides visibility on near-term Engineered Systems revenue. The Company also continues to bid on other projects proposed by producers and enquiry levels remain strong, driven by increased midstream activity. While recent liquified natural gas ("LNG") project approval has offered some future relief to the Canadian gas industry, management still expects activity to be largely subdued through the remainder of 2018 and into 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 the synergies from being active in multiple regions to deploy key expertise worldwide and generate repeat business from globally active customers. Enerflex has developed regional strategies to support its Company-wide goals.

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

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In these regions, the Company has targeted integrated turnkey projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Early successes have been experienced in Bahrain, Kuwait, and Oman in MEA, and in Argentina and Colombia in Latin America. The Company continues to look at opportunities throughout these regions. In Brazil, Enerflex has repositioned itself to capitalize on future opportunities, particularly for natural gas-fueled projects. In Mexico, the Company holds a large rental fleet which can be deployed as opportunities arise in Mexico or other countries.

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

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

NON-GAAP MEASURES

The success of the Company and its business unit strategies is measured using a number of key performance indicators, some of which do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-

GAAP measures are also used by management in its assessment of relative investments in operations and include bookings and backlog, recurring revenue as a percentage of revenue, EBITDA, net debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net earnings or any other measure of performance under GAAP. The reconciliation of these non-GAAP measures to the most directly comparable measure calculated in accordance with GAAP is provided below where appropriate. Bookings and backlog do not have a directly comparable GAAP measure.

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

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
EBITDA				
Earnings before finance costs and income taxes	**$ 55,570**	$ 32,767	**$ 103,439**	$ 98,580
Depreciation and amortization	**20,469**	20,226	**62,796**	60,358
EBITDA	**$ 76,039**	$ 52,993	**$ 166,235**	$ 158,938
Recurring Revenue				
Service	**$ 88,570**	$ 72,759	**$ 248,497**	$ 224,449
Rental	**44,095**	38,340	**127,203**	107,867
Total Recurring Revenue	**$ 132,665**	$ 111,099	**$ 375,700**	$ 332,316
ROCE				
Trailing 12-month EBIT[1]	**$ 150,654**	$ 62,296	**$ 150,654**	$ 62,296
Capital Employed - beginning of period				
Net debt	**$ 179,219**	$ 170,407	**$ 232,726**	$ 226,402
Shareholders' equity	**1,190,813**	1,128,625	**1,134,472**	1,117,627
	$ 1,370,032	$ 1,299,032	**$ 1,367,198**	$ 1,344,029
Capital Employed - end of period				
Net debt	**$ 159,149**	$ 202,758	**$ 159,149**	$ 202,758
Shareholders' equity	**1,199,800**	1,115,155	**1,199,800**	1,115,155
	$ 1,358,949	$ 1,317,913	**$ 1,358,949**	$ 1,317,913
Average Capital Employed[2]	**$ 1,378,878**	$ 1,351,022	**$ 1,378,878**	$ 1,351,022
Return on Capital Employed	**10.9%**	4.6%	**10.9%**	4.6%

[1]Includes the impact of impairments.

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

FREE CASH FLOW

($ Canadian thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Cash provided by operating activities	**$ 30,729**	$ 98,200	**$ 134,434**	$ 166,766
Net change in non-cash working capital and other	**(30,610)**	68,212	**225**	57,708
	$ 61,339	$ 29,988	**$ 134,209**	$ 109,058
Add-back:				
Net finance costs	**4,543**	3,303	**14,571**	8,987
Current income tax expense	**8,795**	786	**18,796**	25,518
Deduct:				
Net interest paid	**(756)**	(2,752)	**(10,042)**	(8,030)
Net cash taxes (paid) received	**(2,550)**	(8,158)	**2,928**	(31,455)
Dividends paid	**(8,412)**	(7,527)	**(25,241)**	(22,540)
Net capital spending	**(4,070)**	21,768	**(38,691)**	22,227
Free cash flow	**$ 58,889**	$ 37,408	**$ 96,530**	$ 103,765

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
September 30, 2018	**$ 445,803**	**$ 37,696**	**$ 0.43**	**$ 0.42**
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
December 31, 2017	450,065	26,702	0.30	0.30
September 30, 2017	315,019	25,188	0.28	0.28
June 30, 2017	433,484	21,346	0.24	0.23
March 31, 2017	354,787	24,517	0.28	0.28
December 31, 2016	343,385	(45,488)	(0.54)	(0.54)
September 30, 2016	262,449	17,596	0.23	0.23

[1] Amounts presented are from continuing operations.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at September 30, 2018 compared to December 31, 2017:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$61.0	The increase in current assets and liabilities is due to higher cash and accounts receivable balances, as well as lower accounts payable balances, partially offset by lower inventories. Accounts receivable increased due to amounts owing from OOCEP, which were reclassified to accounts receivable from other assets in the prior quarter.
Property, plant and equipment	$(17.7)	The decrease in property, plant and equipment is due to the sale of idle facilities in the Canada and USA segments, as well as depreciation of property, plant and equipment assets.
Rental equipment	$22.2	The increase in rental assets is due to continued investment in the contract compression rental fleet in the USA segment and the strengthening of the U.S. dollar relative to the Canadian dollar, offset by depreciation of rental equipment.
Total assets	$25.6	The increase in total assets is primarily related to the increase in cash, accounts receivable, and rental equipment and the impact of the strengthening U.S. dollar relative to the Canadian dollar, partially offset by the decrease in inventories, property, plant and equipment, and other assets.
Long-term debt	$(33.7)	The decrease in long-term debt is due to repayments made on the Bank Facility, partially offset by the strengthening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$65.4	Shareholders' equity before non-controlling interest increased due to net earnings of $68.6 million, $5.0 million of stock option impacts, $2.7 million opening retained earnings adjustment on adoption of IFRS 15 and $14.3 million unrealized gain on translation of foreign operations, partially offset by dividends of $25.3 million.

During the quarter, the Company received a partial ruling related to the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $39.5 million, which is comprised of the full final milestone payment of $30.3 million, variation claims in respect of additional costs and delays in construction of $5.2 million, and interest on the outstanding amounts. The tribunal also dismissed the respondent's counterclaim for liquidated damages in its entirety. At September 30, 2018, interest on the outstanding amounts totaled $4.1 million. The earnings impact, net of tax, of $8.0 million has been recognized in the third quarter results. The allocation of costs and expenses of the proceedings will be the subject of a separate final award by the tribunal, which is expected in the first quarter of 2019.

LIQUIDITY

The Company expects that continued cash flows from operations in 2018, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at September 30, 2018, the Company held cash and cash equivalents of $267.1 million and had cash drawings of $119.1 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $593.2 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 "Notes"), with a bank-adjusted net debt to EBITDA ratio of 0.7:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

Summarized Statements of Cash Flow

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Cash, beginning of period	**$ 305,838**	$ 181,447	**$ 227,284**	$ 167,561
Cash provided by (used in):				
Operating activities	**30,729**	98,200	**134,434**	166,766
Investing activities	**(3,802)**	(121,295)	**(37,976)**	(120,446)
Financing activities	**(65,068)**	103,336	**(56,952)**	48,530
Exchange rate changes on foreign currency cash	**(576)**	(1,317)	**331**	(2,040)
Cash, end of period	**$ 267,121**	$ 260,371	**$ 267,121**	$ 260,371

Operating Activities

For the three and nine months ended September 30, 2018, as compared with the same period in 2017, cash provided by operating activities decreased primarily due to changes in non-cash working capital.

Investing Activities

For the three and nine months ended September 30, 2018 cash used in investing activities decreased due to the Mesa acquisition in the third quarter of 2017, partially offset by continued investment in rental equipment.

Financing Activities

For the three and nine months ended September 30, 2018, cash provided by financing activities decreased primarily due to repayments of the credit facility.

CAPITAL RESOURCES

On October 31, 2018, Enerflex had 88,873,121 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 third quarter of 2018, the Company declared an increased quarterly dividend of $0.105 per share.

At September 30, 2018, the Company had drawn $119.1 million against the Bank Facility (December 31, 2017 - $160.6 million). The weighted average interest rate on the Bank Facility at September 30, 2018 was 3.4 percent (December 31, 2017 – 2.6 percent).

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

($ Canadian thousands)	**September 30, 2018**	**December 31, 2017**
Drawings on Bank Facility	**$ 119,100**	$ 160,576
Notes due June 22, 2021	**40,000**	40,000
Notes due December 15, 2024	**150,923**	146,723
Notes due December 15, 2027	**120,615**	117,815
Deferred transaction costs	**(4,368)**	(5,104)
	$ 426,270	$ 460,010

At September 30, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $159.1 million, and $271.5 million thereafter.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

i. IFRS 16 *Leases* ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory. Under the new standard, lessees will be required move off-balance sheet rights and obligations on to the balance sheet as a right-of-use asset and lease liability. This in-turn impacts debt covenants, financial metrics, and key performance indicators. The impact of IFRS 16 on lessors is anticipated to minimal.

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

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

The Company is currently completing an assessment detailing the potential impacts of IFRS 16 on its Consolidated Financial Statements, and is considering disclosure and IT requirements under the new standard. The Company is also considering practical expedients available under IFRS 16 and will finalize policy choices on these expedients prior to January 1, 2019.

ii. IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28")

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

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

The Company expects to apply the amendments beginning January 1, 2019, and does not anticipate significant changes to the Company's Consolidated Financial Statements.

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the nine months ended September 30, 2018 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

SUBSEQUENT EVENTS

Subsequent to September 30, 2018, the Company announced an increased quarterly dividend of $0.105 per share, payable on January 10, 2019, to shareholders of record on November 22, 2018.

FORWARD-LOOKING STATEMENTS

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

All forward-looking information in this MD&A, primarily in the 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 STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		**September 30, 2018**		*(restated)* December 31, 2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**267,121**	$	227,284
Accounts receivable (Note 3)		**474,765**		445,714
Inventories (Note 4)		**155,151**		171,455
Income taxes receivable		**6,940**		14,621
Derivative financial instruments (Note 12)		**92**		470
Other current assets		**11,824**		9,937
Total current assets		**915,893**		869,481
Property, plant and equipment (Note 5)		**79,520**		97,232
Rental equipment (Note 5)		**482,043**		459,853
Deferred tax assets (Note 10)		**53,062**		47,862
Other assets		**20,788**		50,423
Intangible assets		**29,099**		35,452
Goodwill (Note 6)		**575,774**		570,299
Total assets	**$**	**2,156,179**	$	2,130,602
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**303,181**	$	322,951
Provisions (Note 7)		**13,053**		15,653
Income taxes payable		**15,662**		5,585
Deferred revenues (Note 8)		**141,585**		143,177
Deferred financing income		**206**		298
Derivative financial instruments (Note 12)		**157**		813
Total current liabilities		**473,844**		488,477
Long-term debt (Note 9)		**426,270**		460,010
Deferred tax liabilities (Note 10)		**40,994**		32,957
Other liabilities		**15,271**		14,686
Total liabilities	**$**	**956,379**	$	996,130
Shareholders' equity				
Share capital	**$**	**362,181**	$	357,696
Contributed surplus		**654,571**		654,076
Retained earnings		**95,126**		49,011
Accumulated other comprehensive income		**86,671**		72,364
Total shareholders' equity before non-controlling interest		**1,198,549**		1,133,147
Non-controlling interest		**1,251**		1,325
Total shareholders' equity and non-controlling interest		**1,199,800**		1,134,472
Total liabilities and shareholders' equity	**$**	**2,156,179**	$	2,130,602

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

INTERIM CONDENSED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Revenue (Note 14)	**$ 445,803**	$ 315,019	**$ 1,236,431**	$ 1,103,290
Cost of goods sold	**356,418**	263,307	**1,010,220**	900,867
Gross margin	**89,385**	51,712	**226,211**	202,423
Selling and administrative expenses	**39,767**	38,950	**128,835**	126,556
Operating income	**49,618**	12,762	**97,376**	75,867
Gain on disposal of property, plant and equipment (Note 5)	**6,068**	19,486	**6,146**	22,421
Equity earnings (loss) from associate and joint venture	**(116)**	519	**(83)**	292
Earnings before finance costs and income taxes	**55,570**	32,767	**103,439**	98,580
Net finance costs	**4,543**	3,303	**14,571**	8,987
Earnings before income taxes	**51,027**	29,464	**88,868**	89,593
Income taxes (Note 10)	**13,331**	4,276	**19,932**	18,542
Net earnings	**$ 37,696**	$ 25,188	**$ 68,936**	$ 71,051
Net earnings attributable to:				
Controlling interest	**$ 37,602**	$ 25,030	**$ 68,642**	$ 70,629
Non-controlling interest	**94**	158	**294**	422
	$ 37,696	$ 25,188	**$ 68,936**	$ 71,051
Earnings per share – basic	**$ 0.43**	$ 0.28	**$ 0.78**	$ 0.80
Earnings per share – diluted	**$ 0.42**	$ 0.28	**$ 0.77**	$ 0.80
Weighted average number of shares – basic	**88,707,322**	88,540,398	**88,621,544**	88,475,308
Weighted average number of shares – diluted	**89,055,440**	89,104,224	**88,983,408**	89,126,211

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
Net earnings	**$ 37,696**	$ 25,188	**$ 68,936**	$ 71,051
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 expense (recovery)	**12**	72	**35**	(129)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**181**	272	**234**	468
Unrealized gain (loss) on translation of foreign denominated debt	**1,721**	14,254	**(13,152)**	26,225
Unrealized gain (loss) on translation of financial statements of foreign operations	**(25,542)**	(46,356)	**26,822**	(81,939)
Other comprehensive income (loss)	**$ (23,628)**	$ (31,758)	**$ 13,939**	$ (55,375)
Total comprehensive income (loss)	**$ 14,068**	$ (6,570)	**$ 82,875**	$ 15,676
Other comprehensive income (loss) attributable to:				
Controlling interest	**$ (23,695)**	$ (31,617)	**$ 14,307**	$ (54,534)
Non-controlling interest	**67**	(141)	**(368)**	(841)
	$ (23,628)	$ (31,758)	**$ 13,939**	$ (55,375)

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Operating Activities				
Net earnings	**$ 37,696**	$ 25,188	**$ 68,936**	$ 71,051
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**20,469**	20,226	**62,796**	60,358
Equity (earnings) loss from associate and joint venture	**116**	(519)	**83**	(292)
Deferred income taxes (Note 10)	**4,536**	3,490	**1,136**	(6,976)
Share-based compensation expense (Note 11)	**4,590**	1,089	**7,404**	7,338
Gain on sale of property, plant and equipment (Note 5)	**(6,068)**	(19,486)	**(6,146)**	(22,421)
	61,339	29,988	**134,209**	109,058
Net change in non-cash working capital and other (Note 13)	**(30,610)**	68,212	**225**	57,708
Cash provided by operating activities	**$ 30,729**	$ 98,200	**$ 134,434**	$ 166,766
Investing Activities				
Acquisition (Note 2)	**$ -**	$ (144,207)	**$ -**	$ (144,207)
Additions to:				
Property, plant and equipment (Note 5)	**(3,396)**	(1,407)	**(6,796)**	(3,801)
Rental equipment (Note 5)	**(22,519)**	(11,646)	**(58,729)**	(14,618)
Proceeds on disposal of:				
Property, plant and equipment (Note 5)	**18,409**	32,912	**23,040**	36,622
Rental equipment (Note 5)	**3,436**	1,909	**3,794**	4,024
Change in other assets	**268**	1,144	**715**	1,534
Cash used in investing activities	**$ (3,802)**	$ (121,295)	**$ (37,976)**	$ (120,446)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 13)	**$ (59,305)**	$ 110,863	**$ (35,259)**	$ 67,979
Dividends	**(8,412)**	(7,527)	**(25,241)**	(22,540)
Stock option exercises	**2,649**	-	**3,548**	3,091
Cash provided by (used in) financing activities	**$ (65,068)**	$ 103,336	**$ (56,952)**	$ 48,530
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (576)**	$ (1,317)	**$ 331**	$ (2,040)
Increase (decrease) in cash and cash equivalents	**(38,717)**	78,924	**39,837**	92,810
Cash and cash equivalents, beginning of period	**305,838**	181,447	**227,284**	167,561
Cash and cash equivalents, end of period	**$ 267,121**	$ 260,371	**$ 267,121**	$ 260,371

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained Earnings (deficit)	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2017	$ 353,263	$ 653,503	$ (17,000)	$ 126,258	$ (1,034)	$ 125,224	$ 1,114,990	$ 2,637	$ 1,117,627
Net earnings	-	-	70,629	-	-	-	70,629	422	71,051
Other comprehensive income (loss)	-	-	-	(54,873)	339	(54,534)	(54,534)	(841)	(55,375)
Effect of stock option plans	4,433	(12)	-	-	-	-	4,421	-	4,421
Dividends	-	-	(22,569)	-	-	-	(22,569)	-	(22,569)
At September 30, 2017	$ 357,696	$ 653,491	$ 31,060	$ 71,385	$ (695)	$ 70,690	$ 1,112,937	$ 2,218	$ 1,115,155
At January 1, 2018	$ 357,696	$ 654,076	$ 49,011	$ 73,325	$ (961)	$ 72,364	$ 1,133,147	$ 1,325	$ 1,134,472
IFRS 15 opening retained earnings adjustment (Note 18)	-	-	2,738	-	-	-	2,738	-	2,738
Net earnings	-	-	68,642	-	-	-	68,642	294	68,936
Other comprehensive income (loss)	-	-	-	14,038	269	14,307	14,307	(368)	13,939
Effect of stock option plans	4,485	495	-	-	-	-	4,980	-	4,980
Dividends	-	-	(25,265)	-	-	-	(25,265)	-	(25,265)
At September 30, 2018	**$ 362,181**	**$ 654,571**	**$ 95,126**	**$ 87,363**	**$ (692)**	**$ 86,671**	**$ 1,198,549**	**$ 1,251**	**$ 1,199,800**

See accompanying Notes to the Interim Condensed Financial Statements.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These Interim Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These Interim Condensed Financial Statements were approved and authorized for issue by the Board of Directors on November 8, 2018.

(b) Basis of Presentation and Measurement

These Interim Condensed Financial Statements for the three and nine months ended September 30, 2018 and 2017 were prepared in accordance with IAS 34 and do not include all the disclosures included in the Annual Consolidated Financial Statements for the year ended December 31, 2017. Accordingly, these Interim Condensed Financial Statements should be read in conjunction with the Annual Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform with the current period's presentation. In the quarter, the Company finalized the fair value of the identifiable assets acquired and liabilities assumed as part of the acquisition of Mesa Compression, LLC ("Mesa"), including adjustments to reflect the recoverable amount of certain assets, confirmed subsequent to the acquisition date. Adjustments made are detailed in Note 2.

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

Under IFRS 15, revenue is recognized as the Company satisfies its performance obligations by transferring promised goods or services to customers, regardless of when the payment is being made. Revenue is measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, and may include fixed amounts, variable amounts, or both. Variable amounts are recorded at the most likely amount, as determined upon initial recognition of the contract, and are reassessed at each reporting period. In estimating variable consideration, the Company reviews any potential for returns, refunds, and other similar obligations. For contracts containing multiple performance obligations, the amount of consideration to which the Company expects to be entitled is allocated to individual performance obligations proportionately based on the stand-alone selling price. The following describes the specific revenue recognition policies for each major category of revenue:

Engineered Systems

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

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

Service
Service revenues include the sales of parts and equipment, as well as the servicing and maintenance of equipment. For the sale of parts and equipment, revenue is recognized when the part is shipped to the customer. For servicing and maintenance of equipment, revenue is recognized on a straight-line basis based on performance of the contracted-upon service.

Revenue from long-term service contracts is recognized on a stage of completion basis proportionate to the service work that has been performed based on parts and labour service provided. Payments are typically required on a monthly basis or as work is performed, with no unusual payment terms. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any expected losses on such projects are charged to operations when determined. Long-term service contracts include scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment.

Rentals
Revenue from equipment rentals is recognized in accordance with the terms of the relevant agreement with the customer on a straight-line basis over the term of the agreement. Payments are typically required on a monthly basis with no unusual payment terms. Certain rental contracts contain an option for the customer to purchase the equipment at the end of the rental period. Should the customer exercise this option to purchase, revenue from the sale of the equipment is recognized directly in the Interim Condensed Statements of Earnings.

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For the three and nine months ended September 30, 2018 and 2017 the Company had no contracts with a significant financing component. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the Interim Condensed Statements of Financial Position.

(c) New Policies, Standards, Interpretations and Amendments

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

i. IFRS 16 *Leases* ("IFRS 16")

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory. Under the new standard, lessees will be required move off-balance sheet rights and obligations on to the balance sheet as a right-of-use asset and lease liability. This in-turn impacts debt covenants, financial metrics, and key performance indicators. The impact of IFRS 16 on lessors is anticipated to minimal.

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

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

The Company is currently completing an assessment detailing the potential impacts of IFRS 16 on its Consolidated Financial Statements, and is considering disclosure and IT requirements under the new standard. The Company is also considering practical expedients available under IFRS 16 and will finalize policy choices on these expedients prior to January 1, 2019.

ii. IAS 28 *Investments in Associates and Joint Ventures* ("IAS 28")

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

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

The Company expects to apply the amendments beginning January 1, 2019, and does not anticipate significant changes to the Company's Consolidated Financial Statements.

NOTE 2. ACQUISITION

On July 31, 2017, Enerflex completed the acquisition of the U.S. based contract compression business of Mesa for $115.5 million U.S. dollars, including closing purchase price adjustments. Mesa was a supplier of contract compression services with operations in Oklahoma, Texas, and New Mexico.

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

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

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

NOTE 3. ACCOUNTS RECEIVABLE

Accounts receivable consisted of the following:

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Trade receivables	**$**	**310,058**	$	297,636
Less: allowance for doubtful accounts		**(1,126)**		(968)
Trade receivables, net	**$**	**308,932**		296,668
Unbilled receivables		**122,469**		134,995
Other receivables[1]		**43,364**		14,051
Total accounts receivable	**$**	**474,765**	$	445,714

[1] Other receivables include amounts that were reclassified from long-term to current during the second quarter of 2018. These assets represent milestone payments with respect to a gas processing plant constructed and delivered to Oman Oil Exploration and Production LLC ("OOCEP") during 2015, which were included in arbitration proceedings initiated in the second quarter of 2015. In July 2018, Enerflex was awarded the full amount relating to these milestone payments by the arbitration tribunal. The amounts remain unpaid, however Enerflex expects to collect the full amount of these receivables as per the ruling.

Aging of trade receivables:

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Current to 90 days	**$**	**269,208**	$	262,523
Over 90 days		**40,850**		35,113
	$	**310,058**	$	297,636

Movement in unbilled receivables:

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Balance, January 1	**$**	**134,995**	$	100,742
IFRS 15 transitional adjustment		**14,657**		-
Unbilled revenue recognized		**399,143**		266,876
Amounts billed		**(432,966)**		(232,135)
Currency translation effects		**6,640**		(488)
Closing balance	**$**	**122,469**	$	134,995

NOTE 4. INVENTORIES

Inventories consisted of the following:

($ Canadian thousands)	**September 30, 2018**	December 31, 2017
Equipment	**$ 6,700**	$ 9,510
Repair and distribution parts	**43,898**	43,745
Direct materials	**65,196**	50,193
Work-in-process	**39,357**	68,007
Total inventories	**$ 155,151**	$ 171,455

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three and nine months ended September 30, 2018 was $356.4 million and $1,010.2 million (September 30, 2017 – $263.3 million and $900.9 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the Interim Condensed Statements of Earnings and included in cost of goods sold for the three and nine months ended September 30, 2018 was $1.1 million and $3.1 million (September 30, 2017 – $1.5 million and $4.1 million).

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

NOTE 5. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and nine months ended September 30, 2018, the Company acquired $3.4 million and $6.8 million in property, plant and equipment (September 30, 2017 – $4.1 million and $6.5 million) and $22.5 million and $58.7 million in rental equipment (September 30, 2017 – $122.4 million and $125.4 million). Of the property, plant and equipment and rental equipment acquired in the comparative year, $2.7 million and $110.8 million, respectively, was acquired as part of the purchase of Mesa.

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended September 30, 2018 was $17.8 million (September 30, 2017 – $17.4 million), of which $16.9 million was included in cost of goods sold (September 30, 2017 – $16.3 million) and $0.9 million was included in selling and administrative expenses (September 30, 2017 – $1.1 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the nine months ended September 30, 2018 was $54.3 million (September 30, 2017 – $51.8 million), of which $51.2 million was included in cost of goods sold (September 30, 2017 – $48.2 million) and $3.1 million was included in selling and administrative expenses (September 30, 2017 – $3.6 million).

During the three and nine months ended September 30, 2018, the Company recognized gains on disposal of property, plant and equipment of $6.1 million and $6.1 million (September 30, 2017 – $19.5 million and $22.4 million). The gains relate primarily to the sale of idle facilities in Canada and the USA.

NOTE 6. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

($ Canadian thousands)		**September 30, 2018**		*(restated)* December 31, 2017
Balance, January 1	**$**	**570,299**	$	571,826
Acquisition		**-**		18,267
Adjustment		**-**		2,311
Currency translation effects		**5,475**		(22,105)
Closing balance	**$**	**575,774**	$	570,299

Goodwill acquired through business combinations was allocated to the Canada, USA, and Rest of World business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. Upon acquisition of Mesa, fair value of the identifiable net assets and goodwill acquired effective July 31, 2017 was determined provisionally. The preliminary fair value of the fixed assets was reduced by $2.3 million to reflect the recoverable amount of certain assets, confirmed subsequent to the acquisition date, with a corresponding increase in goodwill. During the first nine months of 2018, the Company did not identify any indicators of impairment.

NOTE 7. PROVISIONS

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Warranty provision	**$**	**9,507**	$	10,927
Onerous lease provision		**2,397**		4,347
Legal provision		**1,064**		94
Restructuring provision		**85**		285
	$	**13,053**	$	15,653

The Company's warranty provision pertains to the Engineered Systems product line and parts sales within the Service product line. The Company's warranty accrual is calculated using a historical average of actual warranty expenditures over a representative timeframe. Special consideration is taken for warranties that can vary by product type or nature. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution.

The Company previously entered into non-cancellable leases for several office spaces and facilities in Canada and Australia. Due to previous business restructuring, the Company ceased using these premises. Onerous lease provisions were recognized in prior years, representing future payments, net of anticipated sub-lease recoveries. The balance of the provision as of September 30, 2018 is $0.2 million for Canada and $2.2 million for Australia (December 31, 2017 - $0.5 million and $3.9 million).

NOTE 8. DEFERRED REVENUES

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Balance, January 1	**$**	**143,177**	$	81,930
IFRS 15 transitional adjustment		**(33,954)**		-
Cash received in advance of revenue recognition		**374,887**		570,475
Revenue subsequently recognized		**(345,451)**		(500,482)
Currency translation effects		**2,926**		(8,746)
Closing balance	**$**	**141,585**	$	143,177

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

NOTE 9. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2022 (the "Maturity Date"). The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $100.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

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

($ Canadian thousands)		**September 30, 2018**		December 31, 2017
Drawings on Bank Facility	**$**	**119,100**	$	160,576
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**150,923**		146,723
Notes due December 15, 2027		**120,615**		117,815
Deferred transaction costs		**(4,368)**		(5,104)
	$	**426,270**	$	460,010

The weighted average interest rate on the Bank Facility for the nine months ended September 30, 2018 was 3.4 percent (December 31, 2017 – 2.6 percent). At September 30, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $159.1 million, and $271.5 million thereafter.

NOTE 10. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

	Three months ended September 30,				Nine months ended September 30,			
($ Canadian thousands)		**2018**		2017		**2018**		2017
Current income taxes	**$**	**8,795**	$	786	**$**	**18,796**	$	25,518
Deferred income taxes		**4,536**		3,490		**1,136**		(6,976)
	$	**13,331**	$	4,276	**$**	**19,932**	$	18,542

(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 September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Earnings before income taxes	**$ 51,027**	$ 29,464	**$ 88,868**	$ 89,593
Canadian statutory rate	**27.0%**	27.0%	**27.0%**	27.0%
Expected income tax provision	**$ 13,777**	$ 7,955	**$ 23,994**	$ 24,190
Add (deduct):				
Exchange rate effects on tax basis	**1,036**	106	**(2,339)**	(4,323)
Earnings taxed in foreign jurisdictions	**(4,727)**	(2,317)	**(5,354)**	60
Withholding tax on dividends received from foreign subsidiaries	**3,188**	-	**3,188**	-
Amounts not (taxable) deductible for tax purposes	**47**	(1,252)	**493**	(1,286)
Impact of accounting for associates and joint ventures	**7**	(183)	**(56)**	(193)
Other	**3**	(33)	**6**	94
Income tax expense from continuing operations	**$ 13,331**	$ 4,276	**$ 19,932**	$ 18,542

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

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2017 – 15.0 percent) and the provincial income tax rate of 12.0 percent (2017 – 12.0 percent).

NOTE 11. SHARE-BASED COMPENSATION

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

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Equity settled share-based payments	**$ 561**	$ 476	**$ 1,432**	$ 1,329
Cash settled share-based payments	**4,029**	613	**5,972**	6,009
Share-based compensation expense	**$ 4,590**	$ 1,089	**$ 7,404**	$ 7,338

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.

During the first nine months of 2018, the Board of Directors granted CPTs, PSEs, PSUs, RSUs and stock options to officers and key employees. 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 September 30, 2018 included in current liabilities was $3.4 million (December 31, 2017 – $4.2 million) and in other long-term liabilities was $11.8 million (December 31, 2017 – $10.8 million).

(a) Equity-Settled Share-Based Payments

	September 30, 2018			December 31, 2017		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**3,556,575**	**$**	**14.03**	2,999,757	$	13.47
Granted	**841,551**		**16.12**	800,498		15.75
Exercised[1]	**(284,823)**		**12.46**	(243,580)		12.70
Forfeited	**(228,058)**		**15.83**	-		-
Expired	**-**		**-**	(100)		12.96
Options outstanding, end of period	**3,885,245**	**$**	**14.49**	3,556,575	$	14.03
Options exercisable, end of period	**1,822,309**	**$**	**13.77**	1,604,238	$	13.47

[1]The weighted average share price of options at the date of exercise for the nine months ended September 30, 2018 was $15.53 (September 30, 2017 - $18.30).

The company granted 841,551 stock options for the nine months ended September 30, 2018 (September 30, 2017 – 800,498). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the period ended September 30, 2018 was $3.99 per option (September 30, 2017 - $3.77).

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

	September 30, 2018	September 30, 2017
Expected life (years)	5.32	5.31
Expected volatility[2]	32.8%	31.1%
Dividend yield	2.4%	2.2%
Risk-free rate	2.2%	1.9%
Estimated forfeiture rate	2.4%	1.4%

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

The following table summarizes options outstanding and exercisable at September 30, 2018:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
\$11.04 – \$12.55	1,216,589	2.36	\$	11.71	947,337	1.93	\$	11.72
\$12.56 – \$15.94	1,541,480	4.75		14.64	646,475	3.71		14.31
\$15.95 – \$20.75	1,127,176	5.84		17.29	228,497	2.86		20.75
Total	**3,885,245**	**4.32**	**\$**	**14.49**	**1,822,309**	**2.68**	**\$**	**13.77**

b) Cash-Settled Share-Based Payments

During the three and nine months ended September 30, 2018, directors' fees and executive bonuses elected to be received in DSUs totalled \$0.4 million and \$1.5 million (September 30, 2017 – \$0.3 million and \$1.1 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2018	593,771	\$	13.93
Granted	95,073		15.49
In lieu of dividends	11,302		15.06
Vested	(55,675)		14.78
DSUs outstanding, September 30, 2018	**644,471**	**\$**	**14.11**

NOTE 12. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2018 were designated in the same manner as they were at December 31, 2017. Accordingly, with the exception of the long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at September 30, 2018 was \$311.5 million and \$310.4 million (December 31, 2017 – \$304.5 million and \$310.9 million). The fair value of these Notes at September 30, 2018 was determined on a discounted cash flow basis with a weighted average discount rate of 5.32 percent (December 31, 2017 – 4.63 percent).

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at September 30, 2018:

		Notional amount	Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	**9,880**	October 2018 – July 2019
Sales contracts	USD	**(17,281)**	October 2018 – July 2019

At September 30, 2018, the fair value of derivative financial instruments classified as financial assets was $0.1 million, and as financial liabilities was $0.2 million (December 31, 2017 – $0.5 million and $0.8 million).

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 September 30, 2018. The following table shows the sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5 percent	USD	AUD	BRL
Earnings from foreign operations			
Earnings before income taxes	**$ 4,122**	**$ 55**	**$ 109**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 17,781**	**$ 609**	**$ 156**
Financial instruments held in Canadian operations			
Earnings (loss) before income taxes	**$ (11,186)**	**$ -**	**$ -**

Interest Rate Risk

The Company's liabilities include long-term debt subject to fluctuations in interest rates. Notes outstanding at September 30, 2018 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Bank Facility, however, is subject to changes in market interest rates.

For each 1 percent change in the rate of interest on the Bank Facilities, the change in interest expense would be $1.2 million (December 31, 2017 – $1.6 million). All interest charges are recorded on the Interim Condensed Statements of Earnings as net finance costs.

Liquidity Risk

Liquidity risk is the risk that Enerflex may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facility for future drawings to meet future growth targets. As at September 30, 2018, the Company held cash and cash equivalents of $267.1 million and had drawn $119.1 million against the Bank Facility, leaving it with access to $593.2 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 0.7:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the financial instruments has been completed on a maturity basis. The following table outlines the cash flows associated with the maturity of financial liabilities as at September 30, 2018:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 96	$ 61	$ -	$ 157
Accounts payable and accrued liabilities	303,181	-	-	303,181
Long-term debt - bank facility	-	-	119,100	119,100
Long-term debt - notes	-	-	311,538	311,538
Other long-term liabilities	-	-	15,271	15,271

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

NOTE 13. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Net change in non-cash working capital and other				
Accounts receivable	**$ (63,924)**	$ 101,854	**$ (29,051)**	$ (34,384)
Inventories	**(15,011)**	(34,595)	**16,304**	(25,055)
Deferred revenue	**(685)**	18,372	**(1,592)**	87,457
Accounts payable and accrued liabilities, provisions, and income taxes payable	**63,214**	(6,488)	**(12,292)**	37,961
Foreign currency and other	**(14,204)**	(10,931)	**26,856**	(8,271)
	$ (30,610)	$ 68,212	**$ 225**	$ 57,708

Cash paid and received during the period:

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Interest paid	**$ 1,989**	$ 3,102	**$ 12,416**	$ 8,794
Interest received	**(1,233)**	(350)	**(2,374)**	(764)
Taxes paid	**2,659**	8,158	**8,098**	31,455
Taxes received	**(109)**	-	**(11,026)**	-

Changes in liabilities arising from financing activities during the period:

($ Canadian thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Long-term debt, opening balance	**$ 485,057**	$ 351,853	**$ 460,010**	$ 393,963
Changes from financing cash flows	**(53,886)**	122,984	**(47,055)**	92,150
The effect of changes in foreign exchange rates	**(5,436)**	(12,154)	**12,579**	(23,287)
Amortization of deferred transaction costs	**518**	413	**1,519**	1,187
Other changes	**17**	33	**(783)**	(884)
Long-term debt, closing balance	**$ 426,270**	$ 463,129	**$ 426,270**	$ 463,129

NOTE 14. REVENUE

($ Canadian thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Engineered Systems	**$ 313,138**	$ 203,920	**$ 860,731**	$ 770,974
Service	**88,570**	72,759	**248,497**	224,449
Rentals	**44,095**	38,340	**127,203**	107,867
Total revenue	**$ 445,803**	$ 315,019	**$ 1,236,431**	$ 1,103,290

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

($ Canadian thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
United States	**$ 273,064**	$ 150,967	**$ 674,623**	$ 535,775
Canada	**52,842**	81,641	**212,732**	255,834
Oman	**17,546**	12,827	**64,353**	39,478
Australia	**16,773**	9,351	**48,171**	29,583
Kuwait	**7,362**	21,218	**43,668**	98,690
Argentina	**5,476**	3,963	**33,575**	31,015
Mexico	**10,845**	11,718	**33,219**	39,194
Bahrain	**10,414**	10,740	**32,907**	33,982
Colombia	**14,786**	5	**24,716**	124
India	**23,975**	-	**24,163**	2
Other	**12,720**	12,589	**44,304**	39,613
Total revenue	**$ 445,803**	$ 315,019	**$ 1,236,431**	$ 1,103,290

The following table outlines the Company's unsaturated performance obligations, by product line, as at September 30, 2018:

($ Canadian thousands)	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 1,018,373	$ 46,731	$ -	$ 1,065,104
Service	63,653	50,199	68,882	182,734
Rental	99,172	82,684	122,106	303,962
	$ 1,181,198	**$ 179,614**	**$ 190,988**	**$ 1,551,800**

NOTE 15. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

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

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

2018	$ 4,143
2019	13,666
2020	10,041
2021	8,414
2022	4,866
Thereafter	3,869
Total	**$ 44,999**

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

2018	$ 226,827
2019	196,714
2020	2,222

NOTE 16. SEASONALITY

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

NOTE 17. SEGMENTED INFORMATION

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

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

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

For the nine months ended September 30, 2018, the Company recognized $123.2 million of revenue from one customer in the USA segment, which represents 10.0 percent of total revenue for the period. At September 30, 2018, the accounts receivable balance for the customer was $19.2 million, which represents 4.0 percent of total accounts receivable.

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

Three months ended	USA		Rest of World		Canada		Total	
September 30,	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Segment revenue	**$ 285,138**	$ 153,720	**$ 109,245**	$ 79,539	**$ 65,307**	$ 83,356	**$ 459,690**	$ 316,615
Intersegment revenue	**(11,859)**	(523)	**(260)**	(151)	**(1,768)**	(922)	**(13,887)**	(1,596)
Revenue	**$ 273,279**	$ 153,197	**$ 108,985**	$ 79,388	**$ 63,539**	$ 82,434	**$ 445,803**	$ 315,019
Revenue – Engineered Systems	**220,269**	116,587	**48,811**	22,905	**44,058**	64,428	**313,138**	203,920
Revenue – Service	**39,590**	28,059	**32,139**	29,580	**16,841**	15,120	**88,570**	72,759
Revenue – Rental	**13,420**	8,551	**28,035**	26,903	**2,640**	2,886	**44,095**	38,340
Operating income	**$ 27,492**	$ 4,033	**$ 18,446**	$ 6,727	**$ 3,680**	$ 2,002	**$ 49,618**	$ 12,762

Nine months ended September 30,	USA 2018	USA 2017	Rest of World 2018	Rest of World 2017	Canada 2018	Canada 2017	Total 2018	Total 2017
Segment revenue	**$ 704,527**	$ 588,471	**$ 322,757**	$ 270,694	**$ 236,602**	$ 261,081	**$ 1,263,886**	$ 1,120,246
Intersegment revenue	**(20,496)**	(14,296)	**(2,153)**	(620)	**(4,806)**	(2,040)	**(27,455)**	(16,956)
Revenue	**$ 684,031**	$ 574,175	**$ 320,604**	$ 270,074	**$ 231,796**	$ 259,041	**$ 1,236,431**	$ 1,103,290
Revenue – Engineered Systems	**543,336**	477,811	**135,155**	92,452	**182,240**	200,711	**860,731**	770,974
Revenue – Service	**103,493**	82,972	**102,221**	92,189	**42,783**	49,288	**248,497**	224,449
Revenue – Rental	**37,202**	13,392	**83,228**	85,433	**6,773**	9,042	**127,203**	107,867
Operating income	**$ 60,811**	$ 50,930	**$ 32,183**	$ 21,760	**$ 4,382**	$ 3,177	**$ 97,376**	$ 75,867

As at	USA Sep. 30, 2018	USA Dec. 31, 2017	Rest of World Sep. 30, 2018	Rest of World Dec. 31, 2017	Canada Sep. 30, 2018	Canada Dec. 31, 2017	Total Sep. 30, 2018	Total Dec. 31, 2017
Segment assets	**$ 768,784**	$ 698,581	**$ 639,155**	$ 648,648	**$ 446,203**	$ 485,232	**$ 1,854,142**	$ 1,832,461
Goodwill	**157,689**	150,495	**329,718**	329,126	**88,367**	88,367	**575,774**	567,988
Corporate	**-**	-	**-**	-	**-**	-	**(273,737)**	(269,847)
Total segment assets	**$ 926,473**	$ 849,076	**$ 968,873**	$ 977,774	**$ 534,570**	$ 573,599	**$ 2,156,179**	$ 2,130,602

NOTE 18. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its Interim Condensed Financial Statements as at and for the three and nine months ended September 30, 2018, the Company has adjusted the opening retained earnings balance reported previously in the financial statements as at and for the year ended December 31, 2017 for the adoption of IFRS 15. In addition, results reported under IFRS 15 and IFRS 9 differ from results that would have been reported under the previous standards. A reconciliation of the Company's consolidated statements of financial position, earnings, and comprehensive income under both the new and previous standards is set out in the following tables and accompanying notes.

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	September 30, 2018 Per IAS 11, 18, and 39	Effect of Transition	September 30, 2018 Per IFRS 15 and 9
Assets				
Current assets				
Cash and cash equivalents		$ 267,121	$ -	$ 267,121
Accounts receivable	i, ii	457,781	16,984	474,765
Inventories	ii	170,384	(15,233)	155,151
Income taxes receivable		6,940	-	6,940
Derivative financial instruments		92	-	92
Other current assets		11,824	-	11,824
Total current assets		914,142	1,751	915,893
Property, plant and equipment		79,520	-	79,520
Rental equipment		482,043	-	482,043
Deferred tax assets	i, ii	53,546	(484)	53,062
Other assets		20,788	-	20,788
Intangible assets		29,099	-	29,099
Goodwill		575,774	-	575,774
Total assets		$ 2,154,912	$ 1,267	$ 2,156,179
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 303,181	$ -	$ 303,181
Provisions		13,053	-	13,053
Income taxes payable		15,777	(115)	15,662
Deferred revenues	ii	144,534	(2,949)	141,585
Deferred finance income		206	-	206
Derivative financial instruments		157	-	157
Total current liabilities		476,908	(3,064)	473,844
Long-term debt		426,270	-	426,270
Deferred tax liabilities	i, ii	40,216	778	40,994
Other liabilities		15,271	-	15,271
Total liabilities		$ 958,665	$ (2,286)	$ 956,379
Shareholders' equity				
Share capital		$ 362,181	$ -	$ 362,181
Contributed surplus		654,571	-	654,571
Retained earnings	ii	91,573	3,553	95,126
Accumulated other comprehensive income		86,671	-	86,671
Total shareholders' equity before non-controlling interest		1,194,996	3,553	1,198,549
Non-controlling interest		1,251	-	1,251
Total shareholders' equity and non-controlling interest		1,196,247	3,553	1,199,800
Total liabilities and shareholders' equity		$ 2,154,912	$ 1,267	$ 2,156,179

INTERIM CONDENSED STATEMENTS OF EARNINGS

($ Canadian thousands)	Notes	Three months ended September 30, 2018 Per IAS 11, 18, and 39	Effect of Transition	September 30, 2018 Per IFRS 15 and 9
Revenue	ii	$ 458,430	$ (12,627)	$ 445,803
Cost of goods sold	ii	368,464	(12,046)	356,418
Gross margin	ii	89,966	(581)	89,385
Selling and administrative expenses	i	39,767	-	39,767
Operating income		50,199	(581)	49,618
Gain on disposal of property, plant and equipment		6,068	-	6,068
Equity earnings from associate and joint venture		(116)	-	(116)
Earnings before finance costs and income taxes		56,151	(581)	55,570
Net finance costs		4,543	-	4,543
Earnings before income taxes		51,608	(581)	51,027
Income taxes	i, ii	13,445	(114)	13,331
Net earnings		$ 38,163	$ (467)	$ 37,696
Net earnings attributable to:				
Controlling interest		$ 38,069		$ 37,602
Non-controlling interest		94		94
		$ 38,163		$ 37,696
Earnings per share – basic		$ 0.43		$ 0.43
Earnings per share – diluted		$ 0.43		$ 0.42
Weighted average number of shares – basic		88,707,322		88,707,322
Weighted average number of shares – diluted		89,055,440		89,055,440

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Notes	Three months ended September 30, 2018 Per IAS 11, 18, and 39	Effect of Transition	September 30, 2018 Per IFRS 15 and 9
Net earnings		$ 38,163	$ (467)	$ 37,696
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		12	-	12
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		181	-	181
Unrealized gain (loss) on translation of foreign denominated debt		1,721	-	1,721
Unrealized (loss) gain on translation of financial statements of foreign operations		(25,542)	-	(25,542)
Other comprehensive income		$ (23,628)	$ -	$ (23,628)
Total comprehensive income		$ 14,535	$ (467)	$ 14,068
Other comprehensive income attributable to:				
Controlling interest		$ (23,695)		$ (23,695)
Non-controlling interest		67		67
		$ (23,628)		$ (23,628)

INTERIM CONDENSED STATEMENTS OF EARNINGS

($ Canadian thousands)	Notes	Nine months ended September 30, 2018 Per IAS 11, 18, and 39	Effect of Transition	September 30, 2018 Per IFRS 15 and 9
Revenue	ii	$ 1,216,071	$ 20,360	$ 1,236,431
Cost of goods sold	ii	994,987	15,233	1,010,220
Gross margin	ii	221,084	5,127	226,211
Selling and administrative expenses	i	128,408	427	128,835
Operating income		92,676	4,700	97,376
Gain on disposal of property, plant and equipment		6,146	-	6,146
Equity earnings from associate and joint venture		(83)	-	(83)
Earnings before finance costs and income taxes		98,739	4,700	103,439
Net finance costs		14,571	-	14,571
Earnings before income taxes		84,168	4,700	88,868
Income taxes	i, ii	18,785	1,147	19,932
Net earnings		$ 65,383	$ 3,553	$ 68,936
Net earnings attributable to:				
Controlling interest		$ 65,089		$ 68,642
Non-controlling interest		294		294
		$ 65,383		$ 68,936
Earnings per share – basic		$ 0.74		$ 0.78
Earnings per share – diluted		$ 0.73		$ 0.77
Weighted average number of shares – basic		88,621,544		88,621,544
Weighted average number of shares – diluted		88,983,408		88,983,408

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Notes	Nine months ended September 30, 2018 Per IAS 11, 18, and 39	Effect of Transition	September 30, 2018 Per IFRS 15 and 9
Net earnings		$ 65,383	$ 3,553	$ 68,936
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		35	-	35
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		234	-	234
Unrealized gain (loss) on translation of foreign denominated debt		(13,152)	-	(13,152)
Unrealized (loss) gain on translation of financial statements of foreign operations		26,822	-	26,822
Other comprehensive income		$ 13,939	$ -	$ 13,939
Total comprehensive income		$ 79,322	$ 3,553	$ 82,875
Other comprehensive income attributable to:				
Controlling interest		$ 14,307		$ 14,307
Non-controlling interest		(368)		(368)
		$ 13,939		$ 13,939

NOTES TO THE RECONCILIATIONS

i. **Financial Instruments – Expected Credit Losses**

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

ii. **Revenue Recognition**

Under previous revenue guidance in IAS 11, IAS 18, and related interpretations on revenue recognition, the Company did not recognize revenue on percentage-of-completion projects until the outcome of the project could be estimated reliably. Under IFRS 15, revenue is required to be recognized at least to the extent that costs are incurred in the construction of the project until the Company can reasonably measure the outcome. The effect of this change is to decrease revenue for the three months ended September 30, 2018 by $12.6 million and increase revenue for the nine months ended September 30, 2018 by $20.4 million. The change in revenue is due to timing of revenue recognition on individual projects, as percentage-of-completion revenue is recognized from inception of a given project. Cost of goods sold for the three months ended September 30, 2018 decreased by $12.0 million, while cost of goods sold for the nine months ended September 30, 2018 increased by $15.2 million, with a corresponding decrease in work-in-process inventory, as project costs are recognized as incurred. The net impact of the changes in revenue and cost of goods sold for the three months ended September 30, 2018 was a decrease in gross margin of $0.6 million, while gross margin for the nine months ended September 30, 2018 increased by $5.1 million.

Contract assets, defined as the amount to which contract costs incurred to date plus recognized profits less recognized losses exceed progress billings, increased by $17.0 million as percentage-of-completion projects are recognized into revenue earlier in the project lifecycle. Contract liabilities, when progress billings exceed contract costs incurred to date plus recognized profits less recognized losses, decreased by $2.9 million, also due to earlier revenue recognition.

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

NOTE 19. SUBSEQUENT EVENTS

Subsequent to September 30, 2018, Enerflex declared an increased quarterly dividend of $0.105 per share, payable on January 10, 2019, to shareholders of record on November 22, 2018.

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

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

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

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

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

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

KEVIN J. REINHART [5]
Director
Calgary, AB

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

MICHAEL A. WEILL [6]
Director
Houston, TX

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

EXECUTIVES

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

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

GREG STEWART
President, United States of America
Houston, TX

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

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)
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Montreal, QC, H3A 2A6, Canada

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

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

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

INVESTOR RELATIONS

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

ENERFLEX

2018 **QUARTERLY REPORT**

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