ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 7, 2019

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018, the Company's 2018 Annual Report, the Annual Information Form for the year ended December 31, 2018, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

The MD&A focuses on information and key statistics from the unaudited interim condensed financial statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company can be found in the Company's Annual Information Form for the year ended December 31, 2018 and Management Information Circular dated March 4, 2019, which are available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands, except percentages)	**2019**	2018	**2019**	2018
Revenue	**$ 544,284**	$ 445,803	**$ 1,571,060**	$ 1,236,431
Gross margin	**132,571**	89,385	**331,643**	226,211
Selling and administrative expenses	**45,199**	39,767	**148,107**	128,835
Operating income	**87,372**	49,618	**183,536**	97,376
Earnings before finance costs and income taxes ("EBIT")	**87,742**	55,570	**185,089**	103,439
Net earnings	**$ 63,074**	$ 37,696	**$ 120,692**	$ 68,936
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 125,508**	$ 628,991	**$ 414,407**	$ 1,303,407
Engineered Systems backlog	**701,615**	1,065,104	**701,615**	1,065,104
Recurring revenue growth[2]	**10.0%**	19.4%	**17.7%**	13.1%
Gross margin as a percentage of revenue	**24.4%**	20.1%	**21.1%**	18.3%
EBIT as a percentage of revenue[3]	**11.4%**	8.9%	**11.4%**	8.9%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 109,096**	$ 76,039	**$ 250,227**	$ 166,235
Return on capital employed ("ROCE") [3]	**16.5%**	10.9%	**16.5%**	10.9%

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

[2] Recurring revenue is comprised of revenue from the Service and Rental product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature. Growth in recurring revenue is calculated on a period-over-period basis.

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

THIRD QUARTER 2019 OVERVIEW

For the three months ended September 30, 2019:

- Enerflex delivered strong results in the third quarter of 2019 compared to the prior year, based on strong execution of projects included in our record backlog at December 31, 2018, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA. Gross margin percentage for the quarter was 24.4 percent, compared to a five-year average of approximately 19 percent, driven by two main factors: 1) the solid execution of a small number of large, high margin Engineered Systems projects that were booked during the second half of 2018; and 2) increasing revenue from rentals. As the large, high margin projects are completed in 2020, we expect margins to revert to historical levels, with modest improvements provided by growth in recurring revenues.
- Engineered Systems booking activity was low in the quarter as the upstream oil and gas industry continues to balance growth with prudent financial management. Reduced growth capex in the sector impacts Enerflex's Engineered Systems business the hardest. Enerflex has ensured, and will continue to ensure, that our costs are aligned with revenue levels expected from Engineered Systems. The movement in exchange rates resulted in an increase of $7.0 million on foreign currency denominated backlog during the third quarter of 2019, compared to a $13.2 million decrease in the comparable period, resulting in a $20.2 million period-over-period increase.
- Recurring revenue grew by 10.0 percent, driven by increased service activity levels and the continued expansion of the contract compression fleet in the USA. During the quarter, the Company invested $55.3 million in rental assets, largely in the USA, where our fleet has grown by 53.7 percent on a horsepower basis in the last year and has more than doubled since the acquisition of the contract compression platform in July 2017.
- During the quarter, Enerflex appointed Sanjay Bishnoi as Senior Vice President and Chief Financial Officer and David H. Izett as Senior Vice President, General Counsel.
- Subsequent to September 30, 2019, the Company's Board of Directors approved an increase to its quarterly dividend to $0.115 per share, payable on January 9, 2020 to shareholders of record on November 21, 2019. This new dividend amount represents a 9.5 percent increase and reiterates the Company's commitment to returning capital to shareholders.

For the nine months ended September 30, 2019:

- Results for the first nine months of 2019 improved compared to the prior year, based on strong execution of projects included in the record backlog at December 31, 2018, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA.
- Engineered Systems booking activity decreased over the first nine months of 2019 as the upstream oil and gas industry continues to balance growth with prudent financial management. The movement in exchange rates resulted in a decrease of $28.1 million on foreign currency denominated backlog during the first nine months of 2019 compared to a $10.8 million increase in the comparative period, resulting in a $38.9 million period-over-period decrease.
- Engineered Systems backlog decreased compared to the balance at December 31, 2018 due to Engineered Systems revenue recognized in the period outpacing bookings, as well as unfavourable foreign exchange impacts. The backlog at September 30, 2019 provides visibility for Engineered Systems revenue through 2019 and early 2020.
- Recurring revenue grew by 17.7 percent, driven by increased service activity levels and the organic expansion of the contract compression fleet in the USA.

ADJUSTED EBITDA

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

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

($ Canadian thousands)	Three months ended September 30, 2019 Total	USA	ROW	Canada
Reported EBIT	$ 87,742	$ 57,106	$ 13,892	$ 16,744
Share-based compensation	(2,554)	(1,605)	(586)	(363)
Depreciation and amortization	21,354	8,622	10,231	2,501
Adjusted EBITDA	$ 106,542	$ 64,123	$ 23,537	$ 18,882

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

($ Canadian thousands)	Nine months ended September 30, 2019 Total	USA	ROW	Canada
Reported EBIT	$ 185,089	$ 132,760	$ 18,717	$ 33,612
Write-down of equipment in COGS	2,040	-	2,040	-
Gain on disposal of idle facilities	(434)	-	-	(434)
Share-based compensation	4,923	2,494	1,074	1,355
Depreciation and amortization	65,138	24,630	32,906	7,602
Adjusted EBITDA	$ 256,756	$ 159,884	$ 54,737	$ 42,135

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

Adjusted EBITDA for the three and nine months ended September 30, 2019 has increased over the same periods from the prior year. Please refer to the section "Segmented Results" for additional information about results by geographic location.

Effective January 1, 2019, the Company applied IFRS 16 *Leases* ("IFRS 16") for the first time. Under IFRS 16, Enerflex recognizes a lease right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract. Under the previous standard, IAS 17 *Leases*, costs relating to operating leases were recognized on a straight-line basis as COGS and SG&A. Under IFRS 16, the Company records depreciation on lease right-of-use assets as COGS and SG&A, and records an interest expense relating to the lease liability. The amount of the depreciation and interest recorded for the three and nine months ended September 30, 2019 was $3.1 million and $9.2 million and $0.7 million and $1.7 million, respectively. The effect of the new standard is to increase EBIT for the three and nine months ended September 30, 2019 by $0.8 million and $2.2 million, as a portion of lease expenses are included as interest. The resulting increase in EBITDA for the three and nine months ended September 30, 2019 was $3.9 million and $11.3 million. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

The following tables set forth the Engineered Systems bookings and backlog by reporting segment for the following periods:

($ Canadian thousands)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Bookings				
USA	**$ 96,433**	$ 361,009	**$ 268,291**	$ 903,613
Rest of World	**1,660**	66,704	**18,224**	134,615
Canada	**27,415**	201,278	**127,892**	265,179
Total bookings	**$ 125,508**	$ 628,991	**$ 414,407**	$ 1,303,407

($ Canadian thousands)	September 30, 2019	December 31, 2018
Backlog		
USA	**$ 459,270**	$ 930,595
Rest of World	**17,563**	75,210
Canada	**224,782**	414,816
Total backlog	**$ 701,615**	$ 1,420,621

Engineered Systems bookings in the third quarter and first nine months of 2019 were lower than the same periods of 2018 due to several factors, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. Earlier in the year, our fabrication and supply chain capacities limited our ability to take on new prospects with aggressive delivery windows, however this issue was largely resolved by the second quarter of this year.

Backlog at September 30, 2019 was lower than at December 31, 2018 due to Engineered Systems revenue recognized outpacing bookings through the first nine months of 2019, as well as unfavourable foreign exchange impacts on foreign currency denominated backlog. The balance of $701.6 million at September 30, 2019 provides visibility for Engineered Systems revenue through 2019 and early 2020.

The movement in exchange rates resulted in an increase of $7.0 million during the third quarter and decrease of $28.1 million during the first nine months of 2019 on foreign currency denominated backlog, compared to a decrease of $13.2 million and an increase of $10.8 million in the same periods of 2018.

SEGMENTED RESULTS

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

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

- USA generates revenue from manufacturing natural gas compression and processing equipment, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;
- Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing build-own-operate-maintain ("BOOM") and integrated turnkey projects; and
- Canada generates revenue from manufacturing both custom and standard natural gas compression and processing equipment and electric power solutions, as well as providing after-market mechanical service and parts distribution, and compression and power generation rentals.

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Engineered Systems bookings	**$ 96,433**	$ 361,009	**$ 268,291**	$ 903,613
Engineered Systems backlog	**459,270**	719,241	**459,270**	719,241
Segment revenue	**$ 311,288**	$ 285,138	**$ 953,590**	$ 704,527
Intersegment revenue	**(11,989)**	(11,859)	**(34,706)**	(20,496)
Revenue	**$ 299,299**	$ 273,279	**$ 918,884**	$ 684,031
Revenue – Engineered Systems	**$ 236,581**	$ 220,269	**$ 739,616**	$ 543,336
Revenue – Service	**$ 43,360**	$ 39,590	**$ 124,003**	$ 103,493
Revenue – Rental	**$ 19,358**	$ 13,420	**$ 55,265**	$ 37,202
Operating income	**$ 57,292**	$ 27,492	**$ 132,965**	$ 60,811
EBIT	**$ 57,106**	$ 29,673	**$ 132,760**	$ 63,244
EBITDA	**$ 65,728**	$ 35,030	**$ 157,390**	$ 80,064
Segment revenue as a % of total revenue	**55.0%**	61.3%	**58.5%**	55.3%
Recurring revenue growth	**18.3%**	44.8%	**27.4%**	46.0%
Operating income as a % of segment revenue	**19.1%**	10.1%	**14.5%**	8.9%
EBIT as a % of segment revenue	**19.1%**	10.9%	**14.4%**	9.2%
EBITDA as a % of segment revenue	**22.0%**	12.8%	**17.1%**	11.7%

Engineered Systems bookings of $96.4 million in the third quarter of 2019 represent a decrease of $264.6 million or 73.3 percent compared to the same period in the prior year, predominantly due to several factors, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, and uncertainty around global trade dynamics.

Revenue increased by $26.0 million and $234.9 million in the third quarter and first nine months of 2019 compared to the same periods of 2018. Engineered Systems revenue improved over the prior year as a result of the realization of strong bookings seen in prior quarters and continued progress of certain large projects, as well as the impact of the stronger U.S. dollar in 2019 versus the comparative periods. Service revenues increased over the same periods from the prior year due to higher activity, while Rental revenues increased as a result of the organic growth of the contract compression fleet, which has grown by 53.7 percent on a horsepower basis in the last year. The Company has experienced continued strength in demand for after-market service and contract compression in key basins in the USA and sees a solid pipeline of opportunities for growth in those businesses.

Operating income was higher in the third quarter and first nine months of 2019 compared to the prior year by $29.8 million and $72.2 million, due to higher revenues across all product lines and improved gross margin performance on strong project execution, partially offset by higher SG&A costs. Increases in SG&A were driven by higher compensation on a larger workforce, partially offset by mark-to-market impacts on share-based compensation.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Engineered Systems Bookings	**$ 1,660**	$ 66,704	**$ 18,224**	$ 134,615
Engineered Systems Backlog	**17,563**	102,480	**17,563**	102,480
Segment revenue	**$ 87,685**	$ 109,245	**$ 280,771**	$ 322,757
Intersegment revenue	**(164)**	(260)	**(7,739)**	(2,153)
Revenue	**$ 87,521**	$ 108,985	**$ 273,032**	$ 320,604
Revenue – Engineered Systems	**$ 24,412**	$ 48,811	**$ 71,161**	$ 135,155
Revenue – Service	**$ 35,691**	$ 32,139	**$ 114,718**	$ 102,221
Revenue – Rental	**$ 27,418**	$ 28,035	**$ 87,153**	$ 83,228
Operating income	**$ 13,892**	$ 18,446	**$ 18,719**	$ 32,183
EBIT	**$ 13,892**	$ 18,497	**$ 18,717**	$ 32,121
EBITDA	**$ 24,123**	$ 31,569	**$ 51,623**	$ 71,548
Segment revenue as a % of total revenue	**16.1%**	24.4%	**17.4%**	25.9%
Recurring revenue growth	**4.9%**	6.5%	**8.9%**	4.4%
Operating income as a % of segment revenue	**15.9%**	16.9%	**6.9%**	10.0%
EBIT as a % of segment revenue	**15.9%**	17.0%	**6.9%**	10.0%
EBITDA as a % of segment revenue	**27.6%**	29.0%	**18.9%**	22.3%

Engineered Systems bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent. Bookings in the quarter include projects in Australia and the Middle East.

Rest of World revenue decreased by $21.5 million and $47.6 million in the third quarter and first nine months of 2019 compared to the same periods in the prior year, driven by lower Engineered Systems revenues, partially offset by higher Service revenues for both the third quarter and first nine months of 2019 and by higher Rental revenues for the first nine months of 2019. Engineered Systems revenue in the quarter was down due to a lower opening backlog. Service revenues increased due to higher activity levels in Australia and new service agreements in Latin America. Rental revenues were lower in the third quarter due to a reduction in contracted units in Mexico, but were higher for the first nine months of 2019 on the full nine-month contributions of certain projects that commenced operations in 2018 and the sale of idle rental units in Latin America.

Operating income decreased by $4.6 million and $13.5 million in the third quarter and first nine months of 2019 compared to the same periods of 2018. The current quarter decrease is driven by lower revenues, as well as the effects of cost recoveries recognized in SG&A in the prior year. The first nine months of 2019 was also impacted by lower revenues and higher estimated costs to complete certain projects, as well as a write-down of equipment. The comparative year includes margin erosion on certain projects. SG&A costs for the third quarter 2019 increased compared to 2018 due to the effects of cost recoveries recognized in the prior year, partially offset by mark-to-market impacts on share-based compensation and favourable foreign exchange movements. SG&A for the first nine months of 2019 increased compared to 2018 due to increased compensation on higher headcount, partially offset by mark-to-market impacts on share-based compensation, favourable foreign exchange movements and the effects of one-time restructuring activities in Australia recognized in the prior year.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Engineered Systems bookings	**$ 27,415**	$ 201,278	**$ 127,892**	$ 265,179
Engineered Systems backlog	**224,782**	243,383	**224,782**	243,383
Segment revenue	**$ 160,421**	$ 65,307	**$ 391,588**	$ 236,602
Intersegment revenue	**(2,957)**	(1,768)	**(12,444)**	(4,806)
Revenue	**$ 157,464**	$ 63,539	**$ 379,144**	$ 231,796
Revenue – Engineered Systems	**$ 137,295**	$ 44,058	**$ 317,926**	$ 182,240
Revenue – Service	**$ 17,192**	$ 16,841	**$ 52,234**	$ 42,783
Revenue – Rental	**$ 2,977**	$ 2,640	**$ 8,984**	$ 6,773
Operating income	**$ 16,188**	$ 3,680	**$ 31,852**	$ 4,382
EBIT	**$ 16,744**	$ 7,400	**$ 33,612**	$ 8,074
EBITDA	**$ 19,245**	$ 9,440	**$ 41,214**	$ 14,623
Segment revenue as a % of total revenue	**28.9%**	14.3%	**24.1%**	18.8%
Recurring revenue growth	**3.5%**	8.2%	**23.5%**	(15.0)%
Operating income as a % of segment revenue	**10.3%**	5.8%	**8.4%**	1.9%
EBIT as a % of segment revenue	**10.6%**	11.6%	**8.9%**	3.5%
EBITDA as a % of segment revenue	**12.2%**	14.9%	**10.9%**	6.3%

Bookings have decreased to $27.4 million from $201.3 million a year ago, predominantly due to several factors, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, and political uncertainty.

Revenue increased by $93.9 million and $147.3 million for the third quarter and first nine months of 2019 compared to the same periods in 2018 due to higher revenues for all product lines. Engineered Systems revenue improved due to continued progress on projects from opening backlog, while Service and Rental revenues increased due to increased parts and equipment sales.

The Canadian segment recorded an operating income of $16.2 million and $31.9 million for the third quarter and first nine months of 2019 compared to operating income of $3.7 million and $4.4 million over the same periods in 2018. The increase in operating income is due to improved gross margin on higher revenue and improved gross margin percentage resulting from strong project execution. For the third quarter and first nine months of 2019, SG&A costs were consistent with the comparable periods in 2018.

INCOME TAXES

Income tax expense totaled $20.1 million or 24.1 percent and $51.3 million or 29.8 percent of earnings before tax for the three and nine months ended September 30, 2019 compared to $13.3 million or 26.1 percent and $19.9 million or 22.4 percent of earnings before tax in the same periods of 2018. Income tax expense for the third quarter of 2019 was higher primarily due to an increase in earnings before tax and the effect of earnings taxed in foreign jurisdictions, partially offset by withholding taxes on dividends received from foreign subsidiaries in the prior year. The effective tax rate was lower due primarily to withholding taxes on dividends received from foreign subsidiaries in the prior year. Income tax expense and the effective tax rate for the first nine months of 2019 were higher due to an increase in earnings before tax, the revaluation of Canadian deferred tax assets due to a change in the statutory rate, the effect of earnings taxed in foreign jurisdictions, and exchange rate effects on tax bases. During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted, which will reduce Enerflex's taxes in future periods. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

OUTLOOK

Enerflex's financial performance continues to benefit from strategic decisions to: 1) diversify product offerings for Engineered Systems; 2) focus on increasing the recurring revenue streams derived from new and existing long-term BOOM, rental, and service contracts; and 3) develop a geographically diversified business.

Demand for the Company's Engineered Systems product offerings remains dependent on global capital investment in oil and natural gas. Throughout 2019, bookings activity has slowed considerably, driven by several factors including: producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty.

Future production growth in the Permian Basin looks to be transitioning away from smaller producers and toward major oil companies and large independents which are able to take a more measured approach to developing their acreage. Enerflex believes this is a positive dynamic and plays to our strengths of size, scope, and reputation. The Permian is a world-class oil and associated gas resource with significant potential for continued natural gas production growth, and Enerflex is well positioned to provide long-term natural gas solutions in the basin.

Enerflex continues to experience strong demand for global after-market services and contract compression in key basins in the USA, with a solid pipeline of opportunities for further growth in those businesses. We continue to see favourable investment opportunities in the contract compression fleet in the USA, and are leveraging the expertise of our people and our existing supply chain to build out and maintain a highly competitive platform, while maintaining strong returns. Overall, asset ownership represents the most significant growth prospect for the Company and we intend to continue deploying capital to this higher-margin, less-cyclical business. The Company has made significant progress on previously awarded BOOM projects in Latin America and Middle East/Africa ("MEA"), with these projects expected to commence operations and begin generating revenue in the first half of 2020.

In the near term, our backlog and strong execution on project work seen in recent quarters provide visibility on Engineered Systems performance through 2019 and early 2020, while increasing demand for Service and Rental product offerings should continue to drive growth in recurring revenue. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

The recent performance of the USA segment has been largely driven by the industry's investment in shale oil and gas, particularly in the Permian Basin. Continued development in the Permian and other key resource plays should translate to further demand for Engineered Systems products, as well as contract compression solutions to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 280,000 horsepower, providing a valuable recurring revenue source that the Company intends to continue to grow organically through 2019 and beyond.

Rest of World

In the Rest of World segment, the Company continues to generate strong recurring revenue in both the MEA region and Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower. The Company continues to explore new markets and opportunities within this region, focusing on projects that provide long-term, stable cash flows.

In Latin America, Enerflex remains cautiously optimistic as many countries have indicated a renewed desire to develop oil and natural gas in recent periods. The decline in commodity prices negatively impacted investment opportunities in Latin America, however, the energy industry is returning to various prolific plays within the region where Enerflex is well positioned to provide products and services. The Company believes that there are near-term prospects within Argentina, Brazil, and Colombia, and mid- to longer-term prospects in Mexico. The President of Mexico has expressed his desire to make Mexico productive again, which may be positive for the market since compression service is necessary for the oil and gas sector. Enerflex intends to continue to aggressively pursue opportunities with either Pemex or independent producers.

Enerflex continues to make progress on previously awarded BOOM projects in MEA and Latin America, with these projects expected to commence operations and begin generating recurring revenue in the first half of 2020.

In Australia, Enerflex is well positioned to capitalize on the need for increased production due to the supply imbalance driven by higher liquefied natural gas exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will continue to increase, which may result in further growth for the Australian Service product line.

Canada

The Canadian market remains constrained by negative sentiment and the lack of consistent access to market that is causing uncertain pricing and limiting development potential in Canada. In addition, producers have recently made a general shift to funding growth capital expenditures from free cash flow, as declining investment levels have restricted access to other forms of financing. The recent Federal election resulted in a minority government and increased uncertainty for the oil and natural gas industry in Canada. While the approval of certain liquified natural gas ("LNG") projects and improved sentiment surrounding the Canadian LNG industry has offered some future relief to the Canadian gas industry, management still expects activity in Canada to be subdued through 2019 and into 2020.

ENERFLEX STRATEGY

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

Across the Company, Enerflex looks to leverage its diversified international positioning to provide exposure to projects in growing natural gas markets, to offer integrated solutions spanning all phases of a project's life-cycle from engineering and design through to after-market service, and to leverage its Enterprise-wide collaborative approach to deploy key expertise worldwide and generate repeat business from internationally active customers. The Company also targets growth areas in the traditional natural gas industry, including the increasing global demand for natural gas-fired power generation. Enerflex has developed regional strategies to support its Company-wide goals.

In the USA segment, Enerflex has concentrated its efforts on key regions and basins, driven by the U.S.'s increasingly complex natural gas sector. The Company has looked to build on its successes for gas processing solutions for liquids-rich plays in the region, and support the development of upstream resources required to feed an expanding LNG industry. In addition, the focus has been on optimizing the Service business across the region while responding to higher activity levels in all locations. The organic expansion of the contract compression fleet has allowed Enerflex to increase revenues from the Rental product line, while the larger fleet provides a platform for future growth in the segment.

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In these regions, the Company has targeted integrated turnkey projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Successful projects have been completed in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America, and multiple projects secured in previous periods are scheduled to commence operations and begin generating recurring revenue in the first half of 2020. The Company continues to look at opportunities throughout these regions.

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

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

NON-GAAP MEASURES

The success of the Company and its business unit strategies is measured using a number of key performance indicators, some of which do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are also used by management in its assessment of relative investments in operations and include Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net earnings or any other measure of performance under GAAP. The reconciliation of these non-GAAP measures to the most directly comparable measure calculated in accordance with GAAP is provided below where appropriate. Engineered Systems bookings and backlog do not have a directly comparable GAAP measure.

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
EBITDA				
EBIT	**$ 87,742**	$ 55,570	**$ 185,089**	$ 103,439
Depreciation and amortization	**21,354**	20,469	**65,138**	62,796
EBITDA	**$ 109,096**	$ 76,039	**$ 250,227**	$ 166,235
Recurring Revenue				
Service	**$ 96,243**	$ 88,570	**$ 290,955**	$ 248,497
Rental	**49,753**	44,095	**151,402**	127,203
Total Recurring Revenue	**$ 145,996**	$ 132,665	**$ 442,357**	$ 375,700
ROCE				
Trailing 12-month EBIT	**$ 233,329**	$ 150,654	**$ 233,329**	$ 150,654
Capital Employed – beginning of period				
Net debt[1]	**$ 141,492**	$ 179,219	**$ 117,848**	$ 232,726
Shareholders' equity	**1,276,350**	1,190,813	**1,282,519**	1,134,472
	$ 1,417,842	$ 1,370,032	**$ 1,400,367**	$ 1,367,198
Capital Employed – end of period				
Net debt[1]	**$ 182,001**	$ 159,149	**$ 182,001**	$ 159,149
Shareholders' equity	**1,338,416**	1,199,800	**1,338,416**	1,199,800
	$ 1,520,417	$ 1,358,949	**$ 1,520,417**	$ 1,358,949
Average Capital Employed[2]	**$ 1,414,942**	$ 1,378,878	**$ 1,414,942**	$ 1,378,878
Return on Capital Employed	**16.5%**	10.9%	**16.5%**	10.9%

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

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

FREE CASH FLOW

($ Canadian thousands)	Three months ended September 30, 2019	2018	Nine months ended September 30, 2019	2018
Cash provided by operating activities	**$ 31,661**	$ 30,729	**$ 136,502**	$ 134,434
Net change in non-cash working capital and other	**(61,376)**	(30,610)	**(81,618)**	225
	$ 93,037	$ 61,339	**$ 218,120**	$ 134,209
Add-back:				
Net finance costs	**4,600**	4,543	**13,104**	14,571
Current income tax expense	**8,535**	8,795	**22,373**	18,796
Deduct:				
Net interest paid	**(716)**	(756)	**(8,625)**	(10,042)
Net cash taxes (paid) received	**(7,482)**	(2,550)	**(19,469)**	2,928
Dividends paid	**(9,396)**	(8,412)	**(28,134)**	(25,241)
Net capital spending	**(56,152)**	(4,070)	**(166,390)**	(38,691)
Free cash flow	**$ 32,426**	$ 58,889	**$ 30,979**	$ 96,530

For the three and nine months ended September 30, 2019 free cash flow decreased compared to the same periods in 2018. This decrease was primarily due to investment in the rental fleet, which totaled $55.3 million and $140.6 million for the third quarter and first nine months of 2019.

FINANCIAL POSITION

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

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$(46.7)	The decrease in current assets and liabilities is due to lower cash and accounts receivable, as well as higher accounts payable and lease liabilities, partially offset by higher contract assets and inventory and lower deferred revenues. Cash decreased due to expenditures on direct material inventory, rental equipment and property, plant and equipment, while accounts receivable decreased due to collection of trade receivables and amounts owing from OOCEP. Higher accounts payable and inventory balances are reflective of increasing activity levels, while higher contract assets were due to unbilled revenue recognized outpacing amounts billed in the year. Lower deferred revenue was due to revenue recognized on projects for which cash was received prior to December 31, 2018.
Property, plant and equipment	$18.2	The increase in property, plant and equipment is due to additions during the year, primarily the expansion of the Houston fabrication facility, partially offset by depreciation on property, plant and equipment assets.
Rental equipment	$76.8	The increase in rental equipment is due to additions during the year, partially offset by depreciation and the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated rental equipment.
Lease right-of-use assets	$59.5	The increase in lease right-of-use assets is due to the adoption of IFRS 16, which requires an asset to be recorded to reflect the Company's right to use an asset for a contracted period of time.
Total assets	$(43.1)	The decrease in total assets is primarily related to the decreases in cash and non-cash working capital, partially offset by increases in property, plant and equipment, rental equipment and lease right-of-use assets.
Long-term debt	$(43.2)	The decrease in long-term debt is due to repayments made on the Bank Facility and the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Lease liabilities	$65.1	The increase in lease liabilities is due to the adoption of IFRS 16, which requires future cash amounts owing under leases to be recorded and presented on the statement of financial position.
Shareholders' equity before non-controlling interest	$55.9	Shareholders' equity before non-controlling interest increased due to $120.3 million net earnings and $9.5 million of stock options impact, partially offset by $43.3 million unrealized loss on translation of foreign operations, $2.4 million opening retained earnings adjustment on adoption of IFRS 16 and dividends of $28.2 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2019, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at September 30, 2019, the Company held cash and cash equivalents of $219.5 million and had cash drawings of $88.1 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $589.3 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 0.6:1 compared to a maximum ratio of 3:1, and an interest coverage of 18:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
Cash, beginning of period	**$ 223,944**	$ 305,838	**$ 326,864**	$ 227,284
Cash provided by (used in):				
Operating activities	**31,661**	30,729	**136,502**	134,434
Investing activities	**(59,521)**	(3,802)	**(165,533)**	(37,976)
Financing activities	**23,767**	(65,068)	**(77,304)**	(56,952)
Exchange rate changes on foreign currency cash	**(307)**	(576)	**(985)**	331
Cash, end of period	**$ 219,544**	$ 267,121	**$ 219,544**	$ 267,121

Operating Activities

For the three and nine months ended September 30, 2019, cash provided by operating activities was consistent with the same periods in 2018, with improved net earnings offset by movements in non-cash working capital and other non-cash items.

Investing Activities

For the three and nine months ended September 30, 2019 cash used in investing activities increased due to additions to rental equipment and property, plant and equipment and lower proceeds from the sale of property, plant and equipment.

Financing Activities

For the three months ended September 30, 2019, cash provided by financing activities increased primarily due to draws on long-term debt, partially offset by lease liability repayments. For the nine months ended September 30, 2019, cash used in financing activities increased compared to 2018 due to repayment of long-term debt and lease liability repayments, partially offset by higher stock option exercises.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	**Revenue**	**Net earnings**	**Earnings per share – basic**	**Earnings per share – diluted**
September 30, 2019	**$ 544,284**	**$ 63,074**	**$ 0.71**	**$ 0.70**
June 30, 2019	541,874	40,649	0.45	0.45
March 31, 2019	484,902	16,969	0.19	0.19
December 31, 2018	466,842	32,480	0.37	0.36
September 30, 2018	445,803	37,696	0.43	0.42
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
December 31, 2017	450,065	26,702	0.30	0.30
September 30, 2017	315,019	25,188	0.28	0.28
June 30, 2017	433,484	21,346	0.24	0.23

CAPITAL RESOURCES

On October 31, 2019, Enerflex had 89,658,817 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 2019, the Company declared an increased quarterly dividend of $0.115 per share.

At September 30, 2019, the Company had drawn $88.1 million against the Bank Facility (December 31, 2018 - $124.9 million). The weighted average interest rate on the Bank Facility at September 30, 2019 was 3.6 percent (December 31, 2018 – 3.5 percent).

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

($ Canadian thousands)		**September 30, 2019**		December 31, 2018
Drawings on Bank Facility	**$**	**88,127**	$	124,852
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**154,052**		158,241
Senior Notes due December 15, 2027		**122,701**		125,494
Deferred transaction costs		**(3,335)**		(3,875)
	$	**401,545**	$	444,712

At September 30, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $128.1 million, and $276.8 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

SUBSEQUENT EVENTS

Subsequent to September 30, 2019, Enerflex declared an increased quarterly dividend of $0.115 per share, payable on January 9, 2020, to shareholders of record on November 21, 2019.

FORWARD-LOOKING STATEMENTS

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

All forward-looking information in this MD&A, primarily in the Outlook and Enerflex Strategy sections, is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations, including, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids, interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company's control. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements. The forward-looking information included in this MD&A should not be unduly relied upon.

The forward-looking information contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this MD&A is made as of the date of this MD&A and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

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

($ Canadian thousands)		September 30, 2019		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	$	**219,544**	$	326,864
Accounts receivable (Note 2)		**265,140**		469,337
Contract assets (Note 2)		**218,259**		158,027
Inventories (Note 3)		**259,681**		176,206
Income taxes receivable		**7,091**		9,057
Derivative financial instruments (Note 14)		**34**		1,079
Other current assets		**14,201**		12,737
Total current assets		**983,950**		1,153,307
Property, plant and equipment (Note 4)		**106,921**		88,706
Rental equipment (Note 4)		**615,334**		538,489
Lease right-of-use assets (Note 5)		**59,524**		-
Deferred tax assets (Note 10)		**46,766**		53,053
Other assets		**25,939**		21,591
Intangible assets		**22,597**		28,882
Goodwill		**578,754**		598,831
Total assets	$	**2,439,785**	$	2,482,859
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	**344,523**	$	306,859
Provisions (Note 6)		**11,731**		12,890
Income taxes payable		**10,504**		17,057
Deferred revenues (Note 7)		**183,128**		348,804
Current portion of lease liabilities (Note 9)		**14,337**		-
Deferred financing income		**108**		179
Derivative financial instruments (Note 14)		**166**		1,400
Total current liabilities		**564,497**		687,189
Long-term debt (Note 8)		**401,545**		444,712
Lease liabilities (Note 9)		**50,742**		-
Deferred tax liabilities (Note 10)		**73,063**		52,237
Other liabilities		**11,522**		16,202
Total liabilities	$	**1,101,369**	$	1,200,340
Shareholders' equity				
Share capital	$	**375,244**	$	366,120
Contributed surplus		**654,695**		654,324
Retained earnings		**207,831**		118,134
Accumulated other comprehensive income		**99,202**		142,492
Total shareholders' equity before non-controlling interest		**1,336,972**		1,281,070
Non-controlling interest		**1,444**		1,449
Total shareholders' equity and non-controlling interest		**1,338,416**		1,282,519
Total liabilities and shareholders' equity	$	**2,439,785**	$	2,482,859

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands, except per share amounts)	**2019**	2018	**2019**	2018
Revenue (Note 11)	**$ 544,284**	$ 445,803	**$ 1,571,060**	$ 1,236,431
Cost of goods sold	**411,713**	356,418	**1,239,417**	1,010,220
Gross margin	**132,571**	89,385	**331,643**	226,211
Selling and administrative expenses	**45,199**	39,767	**148,107**	128,835
Operating income	**87,372**	49,618	**183,536**	97,376
Gain (loss) on disposal of property, plant and equipment (Note 4)	**(186)**	6,068	**227**	6,146
Equity earnings (loss) from associate	**556**	(116)	**1,326**	(83)
Earnings before finance costs and income taxes	**87,742**	55,570	**185,089**	103,439
Net finance costs (Note 13)	**4,600**	4,543	**13,104**	14,571
Earnings before income taxes	**83,142**	51,027	**171,985**	88,868
Income taxes (Note 10)	**20,068**	13,331	**51,293**	19,932
Net earnings	**$ 63,074**	$ 37,696	**$ 120,692**	$ 68,936
Net earnings attributable to:				
Controlling interest	**$ 62,958**	$ 37,602	**$ 120,323**	$ 68,642
Non-controlling interest	**116**	94	**369**	294
	$ 63,074	$ 37,696	**$ 120,692**	$ 68,936
Earnings per share – basic	**$ 0.71**	$ 0.43	**$ 1.35**	$ 0.78
Earnings per share – diluted	**$ 0.70**	$ 0.42	**$ 1.34**	$ 0.77
Weighted average number of shares – basic	**89,631,084**	88,707,322	**89,444,611**	88,621,544
Weighted average number of shares – diluted	**89,746,389**	89,055,440	**89,756,875**	88,983,408

See accompanying Notes to the interim condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
Net earnings	**$ 63,074**	$ 37,696	**$ 120,692**	$ 68,936
Other comprehensive income (loss):				
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:				
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	**248**	12	**(713)**	35
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**76**	181	**818**	234
Unrealized gain (loss) on translation of foreign denominated debt	**(817)**	1,721	**2,182**	(13,152)
Unrealized gain (loss) on translation of financial statements of foreign operations	**7,084**	(25,542)	**(45,951)**	26,822
Other comprehensive income (loss)	**$ 6,591**	$ (23,628)	**$ (43,664)**	$ 13,939
Total comprehensive income	**$ 69,665**	$ 14,068	**$ 77,028**	$ 82,875
Other comprehensive income (loss) attributable to:				
Controlling interest	**$ 6,671**	$ (23,695)	**$ (43,290)**	$ 14,307
Non-controlling interest	**(80)**	67	**(374)**	(368)
	$ 6,591	$ (23,628)	**$ (43,664)**	$ 13,939

See accompanying Notes to the interim condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
Operating Activities				
Net earnings	**$ 63,074**	$ 37,696	**$ 120,692**	$ 68,936
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**21,354**	20,469	**65,138**	62,796
Equity (earnings) loss from associate and joint venture	**(556)**	116	**(1,326)**	83
Deferred income taxes (Note 10)	**11,533**	4,536	**28,920**	1,136
Share-based compensation expense (recovery) (Note 12)	**(2,554)**	4,590	**4,923**	7,404
(Gain) loss on sale of property, plant and equipment (Note 4)	**186**	(6,068)	**(227)**	(6,146)
	93,037	61,339	**218,120**	134,209
Net change in non-cash working capital and other (Note 15)	**(61,376)**	(30,610)	**(81,618)**	225
Cash provided by operating activities	**$ 31,661**	$ 30,729	**$ 136,502**	$ 134,434
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (10,225)**	$ (3,396)	**$ (38,033)**	$ (6,796)
Rental equipment (Note 4)	**(55,332)**	(22,519)	**(140,570)**	(58,729)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)	**9,009**	18,409	**9,093**	23,040
Rental equipment (Note 4)	**396**	3,436	**3,120**	3,794
Change in other assets	**(3,369)**	268	**857**	715
Cash used in investing activities	**$ (59,521)**	$ (3,802)	**$ (165,533)**	$ (37,976)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 15)	**$ 35,883**	$ (59,305)	**$ (44,462)**	$ (35,259)
Lease liability principal repayment (Note 9)	**(3,537)**	-	**(10,203)**	-
Lease interest incurred (Note 9)	**(651)**	-	**(1,729)**	-
Dividends	**(9,396)**	(8,412)	**(28,134)**	(25,241)
Stock option exercises	**1,468**	2,649	**7,224**	3,548
Cash provided by (used in) financing activities	**$ 23,767**	$ (65,068)	**$ (77,304)**	$ (56,952)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (307)**	$ (576)	**$ (985)**	$ 331
Increase (decrease) in cash and cash equivalents	**(4,400)**	(38,717)	**(107,320)**	39,837
Cash and cash equivalents, beginning of period	**223,944**	305,838	**326,864**	227,284
Cash and cash equivalents, end of period	**$ 219,544**	$ 267,121	**$ 219,544**	$ 267,121

See accompanying Notes to the interim condensed consolidated financial statements.

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2018	$ 357,696	$ 654,076	$ 49,011	$ 73,325	$ (961)	$ 72,364	$ 1,133,147	$ 1,325	$ 1,134,472
IFRS 15 opening retained earnings adjustment	-	-	2,738	-	-	-	2,738	-	2,738
Net earnings	-	-	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
At January 1, 2019	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment (Note 19)	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	120,323	-	-	-	120,323	369	120,692
Other comprehensive income (loss)	-	-	-	(43,395)	105	(43,290)	(43,290)	(374)	(43,664)
Effect of stock option plans	9,124	371	-	-	-	-	9,495	-	9,495
Dividends	-	-	(28,197)	-	-	-	(28,197)	-	(28,197)
At September 30, 2019	**$ 375,244**	**$ 654,695**	**$ 207,831**	**$ 100,168**	**$ (966)**	**$ 99,202**	**$ 1,336,972**	**$ 1,444**	**$ 1,338,416**

See accompanying Notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on November 7, 2019.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three and nine months ended September 30, 2019 and 2018 were prepared in accordance with IAS 34 and do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2018. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. Effective January 1, 2019, the Company applied IFRS 16 *Leases* for the first time – replacing IAS 17 *Leases*. There have been no other significant changes in accounting policies compared to those described in annual consolidated financial statements for the year ended December 31, 2018. Adjustments made on transition to the new standards are detailed in Note 19.

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Management elected to adopt IFRS 16 using the modified retrospective approach and has included an adjustment to opening balances upon adoption to reflect the Company's financial position at January 1, 2019 had the new standard been applied in prior periods.

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

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

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

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

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

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

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

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

The Company has elected not to recognize lease right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to effectively account for the lease right-of-use assets and lease liabilities.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

	September 30, 2019	December 31, 2018
Trade receivables	**$ 257,238**	$ 406,659
Less: allowance for doubtful accounts	**(1,313)**	(992)
Trade receivables, net	**$ 255,925**	$ 405,667
Other receivables[1]	**9,215**	63,670
Total accounts receivable	**$ 265,140**	$ 469,337

[1] *Other receivables at December 31, 2018 include amounts that were reclassified from long-term to current during the second quarter of 2018. These assets represent milestone payments with respect to a gas processing plant constructed and delivered to Oman Oil Company Exploration and Production LLC ("OOCEP") during 2015, which were included in arbitration proceedings initiated in the second quarter of 2015. In July 2018, Enerflex was awarded the full amount relating to these milestone payments, as well as variation claims in respect of additional costs and delays in construction and interest on the outstanding amounts, by the arbitration tribunal. In addition, in December 2018, the tribunal awarded Enerflex amounts relating to costs, fees, taxes, and expenses incurred as part of the proceedings. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million. Enerflex collected the full amount owing, as per the rulings, in March 2019.*

Aging of trade receivables:

	September 30, 2019	December 31, 2018
Current to 90 days	**$ 189,240**	$ 371,324
Over 90 days	**67,998**	35,335
	$ 257,238	$ 406,659

Movement in allowance for doubtful accounts:

	September 30, 2019	December 31, 2018
Balance, January 1	**$ 992**	$ 968
Impairment provision additions on receivables	**1,232**	635
Amounts written off during the year as uncollectible	**(885)**	(652)
Currency translation effects	**(26)**	41
Closing balance	**$ 1,313**	$ 992

Movement in contract assets:

	September 30, 2019	December 31, 2018
Balance, January 1	**$ 158,027**	$ 134,995
IFRS 15 transitional adjustment	**-**	14,657
Unbilled revenue recognized	**507,370**	565,306
Amounts billed	**(446,431)**	(575,694)
Currency translation effects	**(707)**	18,763
Closing balance	**$ 218,259**	$ 158,027

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

NOTE 3. INVENTORIES

Inventories consisted of the following:

	September 30, 2019	December 31, 2018
Direct materials	**$ 155,442**	$ 84,021
Work-in-process	**41,777**	40,331
Repair and distribution parts	**40,846**	45,483
Equipment	**21,616**	6,371
Total inventories	**$ 259,681**	$ 176,206

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, 2019 was $411.7 million and $1,239.4 million (September 30, 2018 – $356.4 million and $1,010.2 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statements of earnings and included in cost of goods sold for the three and nine months ended September 30, 2019 was $1.2 million and $3.4 million (September 30, 2018 – $1.1 million and $3.1 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and nine months ended September 30, 2019, the Company acquired $10.2 million and $38.0 million in property, plant and equipment (September 30, 2018 - $3.4 million and $6.8 million) and $55.3 million and $140.6 million in rental equipment (September 30, 2018 – $22.5 million and $58.7 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended September 30, 2019 was $15.9 million (September 30, 2018 – $17.8 million), of which $15.0 million was included in cost of goods sold (September 30, 2018 – $16.9 million) and $0.9 million was included in selling and administrative expenses (September 30, 2018 – $0.9 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the nine months ended September 30, 2019 was $48.2 million (September 30, 2018 – $54.3 million), of which $45.5 million was included in cost of goods sold (September 30, 2018 – $51.2 million) and $2.7 million was included in selling and administrative expenses (September 30, 2018 – $3.1 million).

Effective January 1, 2019, the estimated useful life for certain rental assets was adjusted from 15 years to 20 years to better align with the historical lifecycle of these assets. As a result, depreciation expense for the three months and nine months ended September 30, 2019 decreased by approximately $3.2 million, and $9.8 million. The full year depreciation expense is expected to decrease by approximately $13.0 million.

NOTE 5. LEASE RIGHT-OF-USE ASSETS

	Land and buildings	Equipment	Total lease right-of-use assets
Cost			
January 1, 2019	$ 23,017	$ 8,968	$ 31,985
Additions	29,919	7,016	36,935
Disposal – end of lease term	(74)	(152)	(226)
Currency translation effects	(161)	(87)	(248)
September 30, 2019	**$ 52,701**	**$ 15,745**	**$ 68,446**
Accumulated depreciation			
January 1, 2019	$ -	$ -	$ -
Depreciation charge	(6,084)	(3,104)	(9,188)
Disposal – end of lease term	74	152	226
Currency translation effects	33	7	40
September 30, 2019	**$ (5,977)**	**$ (2,945)**	**$ (8,922)**
Net book value – September 30, 2019	**$ 46,724**	**$ 12,800**	**$ 59,524**

NOTE 6. PROVISIONS

	September 30, 2019	December 31, 2018
Warranty provision	**$ 9,877**	$ 9,720
Legal provision	**1,854**	1,121
Onerous lease provision	**-**	2,049
	$ 11,731	$ 12,890

The Company previously entered into non-cancellable leases for several office spaces and facilities in Canada and Australia. Due to previous business restructuring, the Company ceased using these premises. Onerous lease provisions were recognized in prior years, representing future payments, net of anticipated sub-lease recoveries. Upon adoption of IFRS 16 on January 1, 2019, the Company elected to use the practical expedient in IFRS 16.C10(b), which allows a lessee to rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review at the date of initial application of the new standard. The value of lease right-of-use assets at the date of initial application was then adjusted by the amount of these provisions for onerous leases. The balance of the provision as of December 31, 2018, subsequently recognized against lease right-of-use assets, was $0.2 million for Canada and $1.8 million for Australia.

NOTE 7. DEFERRED REVENUES

	September 30, 2019	December 31, 2018
Balance, January 1	**$ 348,804**	$ 143,177
IFRS 15 transitional adjustment	**-**	(33,954)
Cash received in advance of revenue recognition	**385,359**	705,468
Revenue subsequently recognized	**(542,991)**	(479,934)
Currency translation effects	**(8,044)**	14,047
Closing balance	**$ 183,128**	$ 348,804

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

NOTE 8. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2023 (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 $150.0 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:

	September 30, 2019	December 31, 2018
Drawings on Bank Facility	**$ 88,127**	$ 124,852
Notes due June 22, 2021	**40,000**	40,000
Notes due December 15, 2024	**154,052**	158,241
Notes due December 15, 2027	**122,701**	125,494
Deferred transaction costs	**(3,335)**	(3,875)
	$ 401,545	$ 444,712

The weighted average interest rate on the Bank Facility for the nine months ended September 30, 2019 was 3.6 percent (December 31, 2018 – 3.5 percent). At September 30, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $128.1 million, and $276.8 million thereafter.

NOTE 9. LEASE LIABILITIES

		September 30, 2019
Balance, January 1	$	39,438
Additions		36,927
Payments made against lease liabilities		(11,932)
Lease interest incurred		1,729
Currency translation effects and other		(1,083)
Closing balance	$	65,079
Current portion of lease liabilities	$	14,337
Non-current portion of lease liabilities		50,742
	$	65,079

In addition to the lease payments made above, during the three and nine months ended September 30, 2019 the Company paid $0.5 million and $1.6 million relating to short-term and low-value leases which were expensed as incurred. During the three and nine months ended September 30, 2019 the Company also paid $0.3 million and $1.4 million in variable lease payments not included in the measurement of lease liabilities, of which $0.1 million and $0.3 million was included in cost of goods sold and $0.2 million and $1.1 million was included in selling and administrative expenses. Interest expense on lease liabilities was $0.7 million and $1.7 million for the three and nine months ended September 30, 2019. Total cash outflow for leases for the three and nine months ended September 30, 2019 was $5.0 million and $15.5 million.

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

		September 30, 2019
2019 (excluding the nine months ended September 30, 2019)	$	4,660
2020		13,772
2021		11,128
2022		8,775
2023		6,435
Thereafter		36,741
	$	81,511
Less:		
Imputed interest		15,922
Short-term leases		471
Low-value leases		39
	$	65,079

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,	
	2019	2018	**2019**	2018
Current income taxes	**$ 8,535**	$ 8,795	**$ 22,373**	$ 18,796
Deferred income taxes	**11,533**	4,536	**28,920**	1,136
	$ 20,068	$ 13,331	**$ 51,293**	$ 19,932

(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,	
	2019	2018	**2019**	2018
Earnings before income taxes	**$ 83,142**	$ 51,027	**$ 171,985**	$ 88,868
Canadian statutory rate	**26.5%**	27.0%	**26.5%**	27.0%
Expected income tax provision	**$ 22,032**	$ 13,777	**$ 45,576**	$ 23,994
Add (deduct):				
Exchange rate effects on tax basis	**1,280**	1,036	**3,201**	(2,339)
Earnings taxed in foreign jurisdictions	**(2,999)**	(4,727)	**(2,555)**	(5,354)
Revaluation of Canadian deferred tax assets due to change in statutory rate	**-**	-	**5,040**	-
Withholding tax on dividends received from foreign subsidiaries	**-**	3,188	**-**	3,188
Amounts not deductible (taxable) for tax purposes	**(59)**	47	**499**	493
Impact of accounting for associates and joint ventures	**(178)**	7	**(449)**	(56)
Other	**(8)**	3	**(19)**	6
Income tax expense from continuing operations	**$ 20,068**	$ 13,331	**$ 51,293**	$ 19,932

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

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

NOTE 11. REVENUE

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Engineered Systems	**$ 398,288**	$ 313,138	**$ 1,128,703**	$ 860,731
Service	**96,243**	88,570	**290,955**	248,497
Rentals	**49,753**	44,095	**151,402**	127,203
Total revenue	**$ 544,284**	$ 445,803	**$ 1,571,060**	$ 1,236,431

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
United States	**$ 217,338**	$ 273,064	**$ 777,644**	$ 674,623
Canada	**152,448**	52,842	**362,748**	212,732
Nigeria	**84,623**	1,583	**154,073**	7,803
Oman	**33,381**	17,546	**89,960**	64,353
Australia	**15,925**	16,773	**54,832**	48,171
Bahrain	**10,519**	10,414	**32,279**	32,907
Mexico	**9,828**	10,845	**32,128**	33,219
Colombia	**2,252**	14,786	**15,078**	24,716
Argentina	**3,564**	5,476	**14,034**	33,575
Brazil	**2,892**	2,841	**8,174**	8,641
Indonesia	**1,877**	2,527	**7,853**	8,155
Other	**9,637**	37,106	**22,257**	87,536
Total revenue	**$ 544,284**	$ 445,803	**$ 1,571,060**	$ 1,236,431

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

	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 701,615	$ -	$ -	$ 701,615
Service	88,002	60,126	128,584	276,712
Rental	127,543	80,170	227,373	435,086
	$ 917,160	**$ 140,296**	**$ 355,957**	**$ 1,413,413**

NOTE 12. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Equity settled share-based payments	**$ 346**	$ 561	**$ 2,271**	$ 1,432
Cash settled share-based payments	**(2,900)**	4,029	**2,652**	5,972
Share-based compensation expense (recovery)	**$ (2,554)**	$ 4,590	**$ 4,923**	$ 7,404

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 2019, the Board of Directors granted CPT, PSEs, PSUs, RSUs and 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 current liability relating to cash settled share-based payments at September 30, 2019 was $1.4 million (December 31, 2018 – $3.9 million) and in other long-term liabilities was $8.6 million (December 31, 2018 – $12.5 million).

(b) Equity-Settled Share-Based Payments

	September 30, 2019		December 31, 2018	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**3,662,698**	**$ 14.74**	3,556,575	$ 14.03
Granted	**890,836**	**13.38**	885,404	16.20
Exercised[1]	**(575,196)**	**12.56**	(543,223)	12.08
Forfeited	**(369,458)**	**15.66**	(228,058)	15.83
Expired	**-**	**-**	(8,000)	11.66
Options outstanding, end of period	**3,608,880**	**$ $14.66**	3,662,698	$ 14.74
Options exercisable, end of period	**1,470,967**	**$ $14.89**	1,555,909	$ 14.13

[1]*The weighted average share price of Options at the date of exercise for the nine months ended September 30, 2019 was $18.55 (September 30, 2018 - $15.53).*

The company granted 890,836 stocks options for the nine months ended September 30, 2019 (September 30, 2018 – 841,551). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the period ended September 30, 2019 was $2.87 per options (September 30, 2018 - $3.99).

The weighted average assumptions used in determinations of fair values are noted below:

	September 30, 2019	**September 30, 2018**
Expected life (years)	**5.28**	5.32
Expected volatility[2]	**33.9%**	32.8%
Dividend yield	**3.2%**	2.4%
Risk-free rate	**1.2%**	2.2%
Estimated forfeiture rate	**4.1%**	2.4%

[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, 2019:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.04 – $13.51	1,135,108	3.97	$	12.38	623,226	3.09	$	12.26
$13.52 – $15.94	1,475,482	5.12		14.64	455,983	2.81		15.05
$15.95 – $20.75	998,290	4.89		17.27	391,758	3.40		18.89
Total	**3,608,880**	**4.70**	**$**	**14.66**	**1,470,967**	**3.08**	**$**	**14.89**

(c) Cash-Settled Share-Based Payments

During the three and nine months ended September 30, 2019, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $0.4 million and $1.3 million (September 30, 2018 – $0.4 million and $1.5 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2019	645,713	$	14.01
Granted	84,358		15.92
In lieu of dividends	11,699		17.60
Vested	(60,206)		16.84
DSUs outstanding, September 30, 2019	**681,564**	**$**	**14.06**

NOTE 13. FINANCE COSTS AND INCOME

	Three months ended September 30,				Nine months ended September 30,			
		2019		2018		**2019**		2018
Finance Costs								
Short and long-term borrowings	**$**	**4,693**	$	5,735	**$**	**14,787**	$	16,922
Interest on lease liability		**651**		-		**1,729**		-
Total finance costs	**$**	**5,344**	$	5,735	**$**	**16,516**	$	16,922
Finance Income								
Bank interest income	**$**	**722**	$	1,164	**$**	**3,341**	$	2,259
Income from finance leases		**22**		28		**71**		92
Total finance income	**$**	**744**	$	1,192	**$**	**3,412**	$	2,351
Net finance costs	**$**	**4,600**	$	4,543	**$**	**13,104**	$	14,571

NOTE 14. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at September 30, 2019 were designated in the same manner as they were at December 31, 2018. Accordingly, with the exception of the long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at September 30, 2019 was $316.8 million and $335.9 million, respectively (December 31, 2018 – $323.7 million and $318.0 million, respectively). The fair value of these Notes at September 30, 2019 was determined on a discounted cash flow basis with a weighted average discount rate of 3.9 percent (December 31, 2018 – 5.4 percent).

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products.

The following table summarizes the Company's commitments to buy and sell foreign currencies as at September 30, 2019:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**18,642**	October 2019 – June 2020
Sales contracts	USD	**(8,835)**	October 2019 – January 2020
Purchase contracts	EUR	**195**	October 2019 – December 2019
U.S. Dollar Denominated Contracts			
Purchase contracts	EUR	**456**	October 2019

At September 30, 2019, the fair value of derivative financial instruments classified as financial assets was less than $0.1 million, and as financial liabilities was $0.2 million (December 31, 2018 – $1.1 million and $1.4 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of $63.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for September 30, 2019. The following table shows the sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5 percent	USD	AUD	BRL
Earnings from foreign operations			
Earnings before income taxes	$ 6,705	$ 71	$ 94
Financial instruments held in foreign operations			
Other comprehensive income	$ 27,707	$ 930	$ 399
Financial instruments held in Canadian operations			
Earnings before income taxes	$ (11,153)	$ -	$ -

The movement in net earnings before tax in Canadian operations is a result of a change in the fair values of financial instruments. The majority of these financial instruments are hedged.

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at September 30, 2019 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, is subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank Facility, the change in interest expense would be $0.9 million. All interest charges are recorded on the annual consolidated statements of earnings as finance costs.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facility for future drawings to meet the Company's future growth targets. As at September 30, 2019, the Company held cash and cash equivalents of $219.5 million and had drawn $88.1 million against the Bank Facility, leaving it with access to $589.3 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 0.6:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 18:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at September 30, 2019:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 137	$ 29	$ -	$ 166
Accounts payable and accrued liabilities	344,523	-	-	344,523
Long-term debt - Bank Facility	-	-	88,127	88,127
Long-term debt - Notes	-	-	316,753	316,753
Other long-term liabilities	-	-	11,522	11,522

The Company expects that cash flows from operations in 2019, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net change in non-cash working capital and other				
Accounts receivable	**$ 79,112**	$ (45,798)	**$ 204,197**	$ (41,577)
Contract assets	**(80,363)**	(18,126)	**(60,232)**	12,526
Inventories	**(18,124)**	(15,011)	**(83,475)**	16,304
Deferred revenue	**(39,709)**	(685)	**(165,676)**	(1,592)
Accounts payable and accrued liabilities, provisions, and income taxes payable	**12,924**	63,214	**29,952**	(12,292)
Foreign currency and other	**(15,216)**	(14,204)	**(6,384)**	26,856
	$ (61,376)	$ (30,610)	**$ (81,618)**	$ 225

Cash paid and received during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Interest paid – short- and long-term borrowings	**$ 781**	$ 1,989	**$ 10,282**	$ 12,416
Interest paid – lease liabilities	**651**	-	**1,729**	-
Total interest paid	**$ 1,432**	$ 1,989	**$ 12,011**	$ 12,416
Interest received	**(716)**	(1,233)	**(3,386)**	(2,374)
Taxes paid	**7,502**	2,659	**19,891**	8,098
Taxes received	**(20)**	(109)	**(422)**	(11,026)

Changes in liabilities arising from financing activities during the period:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Long-term debt, opening balance	**$ 365,436**	$ 485,057	**$ 444,712**	$ 460,010
Changes from financing cash flows	**33,017**	(53,886)	**(34,870)**	(47,055)
The effect of changes in foreign exchange rates	**2,950**	(5,436)	**(8,836)**	12,579
Amortization of deferred transaction costs	**226**	518	**1,295**	1,519
Other changes	**(84)**	17	**(756)**	(783)
Long-term debt, closing balance	**$ 401,545**	$ 426,270	**$ 401,545**	$ 426,270

NOTE 16. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

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

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

2019	$ 164,724
2020	41,435
2021	1,712

NOTE 17. SEASONALITY

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

NOTE 18. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the nine months ended September 30, 2019, the Company recognized $160.5 million of revenue from one customer in the USA segment, which represented 10.2 percent of total revenue for the period. At September 30, 2019, amounts owing from the customer included in accounts receivable and contract assets was $18.4 million, which represented 3.8 percent of the total balance of accounts receivable and contract assets. For the nine months ended September 30, 2018, the Company recognized $123.2 million of revenue from a separate customer in the USA segment, which represented 10.0 percent of total revenue for the period. At September 30, 2018, amounts owing from the customer included in accounts receivable and contract assets was $19.2 million, which represented 4.0 percent of the total balance of accounts receivable and contract assets.

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

- *USA generates revenue from manufacturing natural gas compression and processing equipment, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, operations and maintenance solutions, and contract compression rentals;*
- *Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing build-own-operate-maintain ("BOOM") and integrated turnkey projects; and*
- *Canada generates revenue from manufacturing both custom and standard natural gas compression and processing equipment and electric power solutions, as well as providing after-market mechanical service and parts distribution, and compression and power generation rentals.*

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

Three months ended September 30,	USA		Rest of World		Canada		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Segment revenue	**$ 311,288**	$ 285,138	**$ 87,685**	$ 109,245	**$ 160,421**	$ 65,307	**$ 559,394**	$ 459,690
Intersegment revenue	**(11,989)**	(11,859)	**(164)**	(260)	**(2,957)**	(1,768)	**(15,110)**	(13,887)
Revenue	**$ 299,299**	$ 273,279	**$ 87,521**	$ 108,985	**$ 157,464**	$ 63,539	**$ 544,284**	$ 445,803
Revenue – Engineered Systems	**236,581**	220,269	**24,412**	48,811	**137,295**	44,058	**398,288**	313,138
Revenue – Service	**43,360**	39,590	**35,691**	32,139	**17,192**	16,841	**96,243**	88,570
Revenue – Rental	**19,358**	13,420	**27,418**	28,035	**2,977**	2,640	**49,753**	44,095
Operating income	**$ 57,292**	$ 27,492	**$ 13,892**	$ 18,446	**$ 16,188**	$ 3,680	**$ 87,372**	$ 49,618

Nine months ended September 30,	USA				Rest of World				Canada				Total			
		2019		2018		**2019**		2018		**2019**		2018		**2019**		2018
Segment revenue	**$**	**953,590**	$	704,527	**$**	**280,771**	$	322,757	**$**	**391,588**	$	236,602	**$**	**1,625,949**	$	1,263,886
Intersegment revenue		**(34,706)**		(20,496)		**(7,739)**		(2,153)		**(12,444)**		(4,806)		**(54,889)**		(27,455)
Revenue	**$**	**918,884**	$	684,031	**$**	**273,032**	$	320,604	**$**	**379,144**	$	231,796	**$**	**1,571,060**	$	1,236,431
Revenue – Engineered Systems		**739,616**		543,336		**71,161**		135,155		**317,926**		182,240		**1,128,703**		860,731
Revenue – Service		**124,003**		103,493		**114,718**		102,221		**52,234**		42,783		**290,955**		248,497
Revenue – Rental		**55,265**		37,202		**87,153**		83,228		**8,984**		6,773		**151,402**		127,203
Operating income	**$**	**132,965**	$	60,811	**$**	**18,719**	$	32,183	**$**	**31,852**	$	4,382	**$**	**183,536**	$	97,376

As at	USA				Rest of World				Canada				Total			
		Sep. 30, 2019		Dec. 31, 2018		**Sep. 30, 2019**		Dec. 31, 2018		**Sep. 30, 2019**		Dec. 31, 2018		**Sep. 30, 2019**		Dec. 31, 2018
Segment assets	**$**	**992,371**	$	990,819	**$**	**620,427**	$	676,676	**$**	**573,319**	$	490,135	**$**	**2,186,117**	$	2,157,630
Goodwill		**161,319**		166,179		**329,068**		344,285		**88,367**		88,367		**578,754**		598,831
Corporate		**-**		-		**-**		-		**-**		-		**(325,086)**		(273,602)
Total segment assets	**$**	**1,153,690**	$	1,156,998	**$**	**949,495**	$	1,020,961	**$**	**661,686**	$	578,502	**$**	**2,439,785**	$	2,482,859

NOTE 19. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

In preparing its interim condensed consolidated financial statements as at and for the three and nine months ended September 30, 2019, the Company has adjusted the opening retained earnings balance reported previously in the financial statements as at and for the year ended December 31, 2018 for the adoption of IFRS 16. In addition, results reported under IFRS 16 differ from results that would have been reported under the previous standard. A reconciliation of the Company's interim condensed consolidated statements of financial position, earnings, comprehensive income, and cash flows under both the new and previous standards is set out in the following tables and accompanying notes.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	As at September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Assets				
Current assets				
Cash and cash equivalents		$ 219,544	$ -	$ 219,544
Accounts receivable		265,140	-	265,140
Contract assets		218,259	-	218,259
Inventories		259,681	-	259,681
Income taxes receivable		7,091	-	7,091
Derivative financial instruments		34	-	34
Other current assets		14,201	-	14,201
Total current assets		983,950	-	983,950
Property, plant and equipment		106,921	-	106,921
Rental equipment		615,334	-	615,334
Lease right-of-use assets	i	-	59,524	59,524
Deferred tax assets	i	46,083	683	46,766
Other assets		25,939	-	25,939
Intangible assets		22,597	-	22,597
Goodwill		578,754	-	578,754
Total assets		$ 2,379,578	$ 60,207	$ 2,439,785
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 344,523	$ -	$ 344,523
Provisions		11,731	-	11,731
Income taxes payable	i	10,393	111	10,504
Deferred revenues		183,128	-	183,128
Current portion of lease liabilities	i	-	14,337	14,337
Deferred finance income		108	-	108
Derivative financial instruments		166	-	166
Total current liabilities		550,049	14,448	564,497
Long-term debt		401,545	-	401,545
Lease liabilities	i	-	50,742	50,742
Deferred tax liabilities		73,063	-	73,063
Other liabilities	i	14,253	(2,731)	11,522
Total liabilities		$ 1,038,910	$ 62,459	$ 1,101,369
Shareholders' equity				
Share capital		$ 375,244	$ -	$ 375,244
Contributed surplus		654,695	-	654,695
Retained earnings	i	210,083	(2,252)	207,831
Accumulated other comprehensive income		99,202	-	99,202
Total shareholders' equity before non-controlling interest		1,339,224	(2,252)	1,336,972
Non-controlling interest		1,444	-	1,444
Total shareholders' equity and non-controlling interest		1,340,668	(2,252)	1,338,416
Total liabilities and shareholders' equity		$ 2,379,578	$ 60,207	$ 2,439,785

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Notes	Three months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Revenue		$ 544,284	$ -	$ 544,284
Cost of goods sold	i	412,111	(398)	411,713
Gross margin		132,173	398	132,571
Selling and administrative expenses	i	45,636	(437)	45,199
Operating income		86,537	835	87,372
Gain on disposal of property, plant and equipment		(186)	-	(186)
Equity earnings from associate and joint venture		556	-	556
Earnings before finance costs and income taxes		86,907	835	87,742
Net finance costs	i	3,949	651	4,600
Earnings before income taxes		82,958	184	83,142
Income taxes	i	20,124	(56)	20,068
Net earnings		$ 62,834	$ 240	$ 63,074
Net earnings attributable to:				
Controlling interest		$ 62,718	240	$ 62,958
Non-controlling interest		116	-	116
		$ 62,834	240	$ 63,074
Earnings per share – basic		$ 0.70		$ 0.71
Earnings per share – diluted		$ 0.70		$ 0.70
Weighted average number of shares – basic		89,631,084		89,631,084
Weighted average number of shares – diluted		89,746,389		89,746,389

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Notes	Three months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Net earnings		$ 62,834	$ 240	$ 63,074
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		248	-	248
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		76	-	76
Unrealized gain (loss) on translation of foreign denominated debt		(817)	-	(817)
Unrealized (loss) gain on translation of financial statements of foreign operations		7,084	-	7,084
Other comprehensive income (loss)		$ 6,591	$ -	$ 6,591
Total comprehensive income		$ 69,425	$ 240	$ 69,665
Other comprehensive income (loss) attributable to:				
Controlling interest		$ 6,671	-	$ 6,671
Non-controlling interest		(80)	-	(80)
		$ 6,591	-	$ 6,591

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Notes	Three months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Operating Activities				
Net earnings		$ 62,834	$ 240	$ 63,074
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	18,235	3,119	21,354
Equity (earnings) loss from associate and joint venture		(556)	-	(556)
Deferred income taxes		11,533	-	11,533
Share-based compensation expense (recovery)		(2,554)	-	(2,554)
(Gain) loss on sale of property, plant and equipment		186	-	186
		89,678	3,359	93,037
Net change in non-cash working capital and other	i	(62,205)	829	(61,376)
Cash provided by operating activities		$ 27,473	$ 4,188	$ 31,661
Investing Activities				
Additions to:				
Property, plant and equipment		$ (10,225)	$ -	$ (10,225)
Rental equipment		(55,332)	-	(55,332)
Proceeds on disposal of:				
Property, plant and equipment		9,009	-	9,009
Rental equipment		396	-	396
Change in other assets		(3,369)	-	(3,369)
Cash used in investing activities		$ (59,521)	$ -	$ (59,521)
Financing Activities				
Proceeds from (repayment of) long-term debt		$ 35,883	$ -	$ 35,883
Lease liability principal repayment	i	-	(3,537)	(3,537)
Lease interest incurred	i	-	(651)	(651)
Dividends		(9,396)	-	(9,396)
Stock option exercises		1,468	-	1,468
Cash provided by (used in) financing activities		$ 27,955	$ (4,188)	$ 23,767
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (307)	$ -	$ (307)
Increase (decrease) in cash and cash equivalents		(4,400)	-	(4,400)
Cash and cash equivalents, beginning of period		223,944	-	223,944
Cash and cash equivalents, end of period		$ 219,544	$ -	$ 219,544

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Notes	Nine months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Revenue		$ 1,571,060	$ -	$ 1,571,060
Cost of goods sold	i	1,240,397	(980)	1,239,417
Gross margin		330,663	980	331,643
Selling and administrative expenses	i	149,285	(1,178)	148,107
Operating income		181,378	2,158	183,536
Gain on disposal of property, plant and equipment		227	-	227
Equity earnings from associate and joint venture		1,326	-	1,326
Earnings before finance costs and income taxes		182,931	2,158	185,089
Net finance costs	i	11,375	1,729	13,104
Earnings before income taxes		171,556	429	171,985
Income taxes	i	51,010	283	51,293
Net earnings		$ 120,546	$ 146	$ 120,692
Net earnings attributable to:				
Controlling interest		$ 120,177	146	$ 120,323
Non-controlling interest		369	-	369
		$ 120,546	146	$ 120,692
Earnings per share – basic		$ 1.35		$ 1.35
Earnings per share – diluted		$ 1.34		$ 1.34
Weighted average number of shares – basic		89,444,611		89,444,611
Weighted average number of shares – diluted		89,756,875		89,756,875

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

($ Canadian thousands)	Notes	Nine months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Net earnings		$ 120,546	$ 146	$ 120,692
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		(713)	-	(713)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		818	-	818
Unrealized gain (loss) on translation of foreign denominated debt		2,182	-	2,182
Unrealized (loss) gain on translation of financial statements of foreign operations		(45,951)	-	(45,951)
Other comprehensive income (loss)		$ (43,664)	$ -	$ (43,664)
Total comprehensive income		$ 76,882	$ 146	$ 77,028
Other comprehensive income (loss) attributable to:				
Controlling interest		$ (43,290)	-	$ (43,290)
Non-controlling interest		(374)	-	(374)
		$ (43,664)	-	$ (43,664)

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)	Notes	Nine months ended September 30, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Operating Activities				
Net earnings		$ 120,546	$ 146	$ 120,692
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	55,950	9,188	65,138
Equity (earnings) loss from associate and joint venture		(1,326)	-	(1,326)
Deferred income taxes		28,920	-	28,920
Share-based compensation expense (recovery)		4,923	-	4,923
(Gain) loss on sale of property, plant and equipment		(227)	-	(227)
		208,786	9,334	218,120
Net change in non-cash working capital and other	i	(84,216)	2,598	(81,618)
Cash provided by operating activities		$ 124,570	$ 11,932	$ 136,502
Investing Activities				
Additions to:				
Property, plant and equipment		$ (38,033)	$ -	$ (38,033)
Rental equipment		(140,570)	-	(140,570)
Proceeds on disposal of:				
Property, plant and equipment		9,093	-	9,093
Rental equipment		3,120	-	3,120
Change in other assets		857	-	857
Cash used in investing activities		$ (165,533)	$ -	$ (165,533)
Financing Activities				
Proceeds from (repayment of) long-term debt		$ (44,462)	$ -	$ (44,462)
Lease liability principal repayment	i	-	(10,203)	(10,203)
Lease interest incurred	i	-	(1,729)	(1,729)
Dividends		(28,134)	-	(28,134)
Stock option exercises		7,224	-	7,224
Cash provided by (used in) financing activities		$ (65,372)	$ (11,932)	$ (77,304)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (985)	$ -	$ (985)
Increase (decrease) in cash and cash equivalents		(107,320)	-	(107,320)
Cash and cash equivalents, beginning of period		326,864	-	326,864
Cash and cash equivalents, end of period		$ 219,544	$ -	$ 219,544

NOTES TO THE RECONCILIATIONS

i. Leases

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

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

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

The Company elected to apply IFRS 16 using the modified retrospective approach, and recognized the cumulative effect of initially applying the Standard as an adjustment to the opening balance of retained earnings. The resulting impact of adoption of the new standard recorded as an adjustment to opening retained earnings on January 1, 2019 was:

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

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

NOTE 20. SUBSEQUENT EVENTS

Subsequent to September 30, 2019, Enerflex declared an increased quarterly dividend of $0.115 per share, payable on January 9, 2020, to shareholders of record on November 21, 2019.

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

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

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

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

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

KEVIN REINHART [5]
Director
Calgary, AB

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

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

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

MICHAEL A. WEILL [6]
Director
Houston, TX

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

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

EXECUTIVES

SANJAY BISHNOI
Senior Vice President and
Chief Financial Officer
Calgary, AB

DAVID IZETT
Senior Vice President and
General Counsel
Calgary, AB

ANDREW JACK
President, Canada
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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

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

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

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

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

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

INVESTOR RELATIONS

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

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

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

ENERFLEX

2019 **QUARTERLY REPORT**

HEAD OFFICE

Suite 904
1331 Macleod Trail SE
Calgary, Alberta, Canada
T2G 0K3

+ 1 403 387 6377

enerflex.com
ir@enerflex.com