ENERFLEX

REPORT FOR THE YEAR ENDED DECEMBER 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 21, 2019

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the audited consolidated financial statements for years ended December 31, 2018 and 2017, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

THE COMPANY

Enerflex is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment with in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, gas lift compression, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, the Company has approximately 2,300 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint operations, operate in Canada, the United States of America ("USA"), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand. Through Enerflex's owned natural gas infrastructure, the Company transforms over 2.5 billion cubic feet of natural gas per day, globally.

Enerflex has fabrication facilities in Calgary, Canada; Houston, USA; and Brisbane, Australia that supply custom fabricated equipment to our customers worldwide. Enerflex is a leading supplier in Canada, the USA, Latin America, and the Middle East rental markets for natural gas compression with a global rental fleet of over 640,000 horsepower. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 46 service locations in Canada, the USA, Latin America, the Middle East, Asia, and Australia.

Enerflex operates three business segments: USA, Rest of World ("ROW"), and Canada. Each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. A summary of the business segments and product lines is provided below.

USA

- The Engineered Systems product line provides custom and standard compression packages for reciprocating and screw compressor applications from Enerflex's facility located in Houston, Texas. In addition, the Company engineers, designs, manufactures, constructs, and installs modular natural gas processing equipment and refrigeration systems. Retrofit provides re-engineering, reconfiguration, and repackaging of compressors for various field applications.
- The Service product line provides mechanical services and parts, as well as operations and maintenance solutions to the oil and natural gas industry in the USA. Effective January 2015, the Company became a GE (now INNIO) Waukesha Platinum Power Packager, providing worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex packages CAT engines and parts. Enerflex's USA service branches are located in Colorado, Louisiana, North Dakota, Oklahoma, Pennsylvania, Texas, and Wyoming.

- The Rentals product line provides natural gas compression equipment rentals to oil and natural gas customers in the USA, primarily operating in the Permian and SCOOP/STACK formations utilizing a fleet of low-, medium- and high-horsepower packages. These compressor packages are typically used in wellhead, gas-lift and natural gas gathering systems and other applications primarily in connection with natural gas and oil production. The Rental product line in the USA operates out of Enerflex's Oklahoma City, Oklahoma facility.

REST OF WORLD

- The Rest of World segment deploys product typically fabricated by Enerflex's Engineered Systems division in Houston, Texas.
- The Latin America region, with locations in Argentina, Bolivia, Brazil, Colombia, and Mexico, provides Engineered Systems products, including BOOM and integrated turnkey natural gas compression and processing solutions, with local construction and installation capabilities. The Service product line in the region focuses on after-market services, parts and components, as well as operations, maintenance, and overhaul services. As a Platinum Power Packager of INNIO's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts. The Rentals product line provides natural gas compression and processing equipment for rent to oil and gas customers in the region.
- The Middle East/Africa ("MEA") region, through its operations in Bahrain, Oman, Kuwait, and the UAE, provides engineering, design, procurement, and construction services for compression and process equipment, as well as rentals, after-market service, and operations and maintenance services for gas compression and processing facilities in the region. MEA also provides mechanical services and parts as a global Platinum Power Packager of INNIO's Waukesha gas engines for the oil and gas industry.
- The Australia region is headquartered in Brisbane, Queensland with additional locations in New South Wales, and Western Australia providing after-market services, equipment supply, parts supply, and general asset management. The Australia region distributes INNIO's Waukesha natural gas engines as a Global Platinum partner. As an INNIO Global Platinum partner, the Company has worldwide factory-direct access to Waukesha engines and parts.
- The Asia region, with locations and operations in Indonesia, Malaysia, and Thailand, provides Engineered Systems and Rentals to customers. Service capabilities are also offered in this region through the Company's local operations. This division also provides mechanical service and parts as a global Platinum Power Packager of INNIO's Waukesha gas engines for the oil and gas industry in this region.
- The Europe/Commonwealth of Independent States ("CIS") region provides customized compression, processing, and high-end refrigeration solutions including CO_2 compression and liquefaction through its location in the United Kingdom. This region also provides mechanical service and parts as a global Platinum Power Packager of INNIO's Waukesha gas engines for the oil and gas industry.

CANADA

- The Engineered Systems product line is comprised of compression, process, and electric power solutions. Enerflex provides custom and standard compression packages for reciprocating and screw compressor applications. It also engineers, designs, manufactures, constructs, and installs modular processing equipment and waste gas systems for natural gas facilities. Enerflex also provides integrated turnkey power generation and gas processing facilities. Retrofit solutions provide re-engineering, re-configuration, and re-packaging of compressors for various field applications. Enerflex has a manufacturing facility in Calgary, Alberta and retrofit facilities in Calgary, Grand Prairie and Red Deer, Alberta.
- The Service product line, operating as Gas Drive in Canada, provides after-market mechanical service and parts distribution. In 2015, Enerflex's long-term distributorship agreement for INNIO's Waukesha natural gas engines and parts changed from being the exclusive distributor in Canada and Australia to being a Global Platinum Partner under INNIO's Waukesha Power Packager program. As an INNIO Waukesha Platinum Power Packager, the Company has worldwide factory-direct access to Waukesha engines and parts. In addition, Gas Drive is also the authorized distributor and service provider of MAN and INNIO's Jenbacher gas engines and parts in Canada. The Company also packages CAT engines and parts. This product line operates out of service branches located in Alberta, British Columbia, Ontario, and Quebec.
- The Rentals product line provides reciprocating and rotary screw natural gas compression packages ranging from 50 to 2,500 horsepower, as well as electric power equipment for rent to customers from its locations in Calgary and Grand Prairie, Alberta.

ENGINEERED SYSTEMS

The Engineered Systems product line is comprised of three product offerings: compression, process, and electric power. Compression packages are offered from 20 to 10,000 plus horsepower and ranging from low specification field compressors to high specification process compressors for onshore and offshore applications. The Company also provides retrofit solutions which includes re-engineering, reconfiguration, and repackaging of compressors for various field applications. Processing equipment includes plant compression, general processing, dew point control, dehydration and liquids separation, and amine sweetening to remove H_2S or CO_2. For electric power, a typical power generation unit is comprised of a natural gas reciprocating engine driver, a generator, and control devices. Facilities dedicated to the Engineered Systems product line occupy approximately 250,000 square feet of manufacturing space in Canada, approximately 180,000 square feet of shop space in the USA, and approximately 40,000 square feet of shop space in Australia devoted to retrofit and service activities. The Company is currently expanding the square footage of its Houston fabrication facility by approximately 100,000 square feet. This additional capacity is expected to be fully operational in the second quarter of 2019.

SERVICE

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization programs, manufacturer warranties, exchange components, and technical services to our global customers. The division operates through an extensive network of branch offices and generally provides its services at the customer's wellsite location using trained technicians and mechanics. Enerflex is a Global Platinum partner under INNIO's Waukesha Power Packager program, which allows the Company to package and service Waukesha engines for its customers worldwide. Gas Drive is the authorized distributor for MAN and INNIO's Jenbacher engines and parts in Canada. In addition, Enerflex is the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Outside of Gas Drive's designated distribution/service areas, after-market service is provided under the Enerflex name. Enerflex's after-market service and support business includes 46 outlets situated in active natural gas producing areas, over 400 service vehicles, hundreds of skilled mechanics, and a sizable inventory of original equipment manufacturer parts from key manufacturers.

RENTALS

The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, processing, and electric power equipment. The rental fleet is currently deployed across Western Canada, the USA, Argentina, Brazil, Colombia, Mexico, Bahrain, Oman, and the UAE, and provides comprehensive contract operations services to customers in each of those regions. These services include the provision of personnel, equipment, tools, materials, and supplies to meet our customers' natural gas compression and processing needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services. The Rentals product line encompasses a fleet of natural gas compressors totaling approximately 640,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

		Three months ended		Twelve months ended
		December 31,		December 31,
($ Canadian thousands, except percentages)	**2018**	2017	**2018**	2017
Revenue	**$ 466,842**	$ 450,065	**$ 1,703,273**	$ 1,553,355
Gross margin	**81,762**	84,100	**307,973**	286,523
Selling and administrative expenses	**34,174**	37,693	**163,009**	164,249
Operating income	**47,588**	46,407	**144,964**	122,274
Earnings before finance costs and income taxes ("EBIT")	**48,240**	47,215	**151,679**	145,795
Net earnings	**$ 32,480**	$ 26,702	**$ 101,416**	$ 97,753
Key Financial Performance Indicators[1]				
Engineered Systems bookings	**$ 676,956**	$ 223,590	**$ 1,980,363**	$ 1,141,032
Engineered Systems backlog	**1,420,621**	670,799	**1,420,621**	670,799
Recurring revenue as a percentage of revenue[2]	**30.6%**	29.7%	**30.6%**	29.7%
Gross margin as a percentage of revenue	**17.5%**	18.7%	**18.1%**	18.4%
EBIT as a percentage of revenue[2]	**8.9%**	9.4%	**8.9%**	9.4%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 75,218**	$ 67,435	**$ 241,453**	$ 226,373
Return on capital employed ("ROCE")[2]	**10.9%**	10.9%	**10.9%**	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 Definitions and Non-GAAP Measures sections.

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

FOURTH QUARTER AND TWELVE MONTHS OF 2018 OVERVIEW

For the three months ended December 31, 2018:

- Recorded bookings of $677.0 million for three months ended December 31, 2018, approximately three times the $223.6 million recorded during the same period last year. The improvement over 2017 was primarily due to several major project bookings in the USA and Canada segments. The fourth quarter of 2018 represents the highest quarterly bookings in the Company's history, breaking the previous record that was established in the third quarter of 2018. The USA segment continues to benefit from large international bookings for projects to be built in the Company's Houston fabrication facility, totaling $199.7 million in the fourth quarter. The movement in exchange rates resulted in an increase of $45.3 million on foreign currency denominated bookings during the fourth quarter of 2018.
- Engineered Systems backlog at December 31, 2018 was $1,420.6 million, a 111.8 percent increase compared to the December 31, 2017 backlog of $670.8 million. Backlog at December 31, 2018 represents the highest quarterly backlog in the Company's history, breaking the previous record established in the third quarter of 2018.
- Enerflex generated revenue of $466.8 million, a 3.7 percent increase compared to $450.1 million in the fourth quarter of 2017. The quarterly revenue increase of $16.8 million is reflective of improved results across all product lines, particularly Service revenue, which increased by $12.9 million, driven by strength in the USA segment.
- Gross margin was $81.8 million in the fourth quarter of 2018 compared to $84.1 million in the same period of 2017. Lower gross margin was the result of lower gross margin percentage, driven by higher estimated costs to complete certain projects in the USA and ROW segments, partially offset by higher revenue.
- Incurred SG&A costs of $34.2 million in the fourth quarter of 2018, down from $37.7 million in the same period last year. The decrease in SG&A is driven by cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration and lower third-party costs associated with the arbitration, partially offset by higher compensation costs and foreign exchange impacts. The higher compensation costs are driven by higher headcount in the USA segment.
- Reported EBIT of $48.2 million during the fourth quarter of 2018 compared to $47.2 million in the same period of 2017 due to lower SG&A, partially offset by lower gross margin.
- Received the final ruling of the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $12.5 million for costs, fees, taxes, and expenses incurred as part of the proceedings. In addition, interest of $0.5 million was recognized on previously awarded amounts. The tribunal also dismissed OOCEP's claim for costs and concluded the arbitration proceedings. The earnings impact, net of tax, of $11.1 million has been recognized in the fourth quarter results. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million.
- Positive outlook, record backlog, and continued high enquiry levels, particularly in the USA and ROW segments, provides strong line of sight on the need for additional manufacturing capacity to meet demand in these segments. Given the current and anticipated future project requirements, the Company is currently expanding the square footage of its Houston fabrication facility by 55%, adding approximately 100,000 square feet. Construction on the expansion has progressed well, with additional capacity expected to be fully operational in the second quarter of 2019. Further expansion is included in the Company's 2019 budget.
- Enerflex was awarded two 10-year Build-Own-Operate-Maintain ("BOOM") contracts, one in Latin America and one in MEA, continuing our success with this path to market in 2018. During the year, the Company commenced operations on a previously awarded 10-year BOOM project in Latin America and was awarded an additional 10-year BOOM contract in Latin America.
- The Company invested $56.6 million in rental assets, largely in the USA, continuing the organic expansion of the USA rental fleet, which has grown 44 percent since the acquisition of the contract compression business from Mesa Compression, LLC ("Mesa").
- Subsequent to December 31, 2018, Enerflex declared a quarterly dividend of $0.105 per share, payable on April 4, 2019, to shareholders of record on March 7, 2019.

For the twelve months ended December 31, 2018:

- Recorded bookings of $1,980.4 million for twelve months ended December 31, 2018, a 73.6 percent increase compared to the $1,141.0 million recorded during the same period last year. 2018 represented the highest annual bookings in the Company's history, driven by consecutive record quarterly bookings.
- Enerflex generated revenue of $1,703.3 million, a 9.7 percent increase compared to $1,553.4 million in the twelve months of 2017. The revenue increase of $149.9 million was due to improved results across all product lines, particularly Engineered Systems, which increased by $90.5 million, driven by strength in the USA segment.

- Gross margin was $308.0 million in the twelve months of 2018 compared to $286.5 million in the same period of 2017. Higher gross margin was the result of increased revenues, while gross margin as a percentage of revenue decreased slightly compared to 2017 due to higher estimated costs to complete certain projects in the USA and ROW segments.
- Incurred SG&A costs of $163.0 million in the twelve months of 2018, down from $164.2 million in the same period last year. The decrease in SG&A is driven by cost recoveries related to the OOCEP arbitration totaling $22.4 million and lower third-party costs associated with the arbitration, partially offset by higher compensation costs and foreign exchange impacts.
- Reported EBIT of $151.7 million during the twelve months of 2018 compared to $145.8 million in the same period of 2017. Gains on PP&E included in EBIT were $5.9 million compared to $22.5 million in 2017.
- The Company repaid $45.6 million of debt and increased cash and cash equivalents held by $99.6 million, resulting in a bank-adjusted net debt to EBITDA ratio of 0.5:1, compared to a maximum ratio of 3:1.

ADJUSTED EBITDA

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

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

				Three months ended December 31, 2018
($ Canadian thousands)	**Total**	**Canada**	**USA**	**ROW**
Reported EBIT	**$ 48,240**	**$ 6,269**	**$ 24,394**	**$ 17,577**
Cost recovery related to OOCEP	**(12,961)**	**-**	**-**	**(12,961)**
Share-based compensation	**2,534**	**463**	**1,287**	**784**
Depreciation and amortization	**26,978**	**1,986**	**6,575**	**18,417**
Adjusted EBITDA	**$ 64,791**	**$ 8,718**	**$ 32,256**	**$ 23,817**

				Three months ended December 31, 2017
($ Canadian thousands)	Total	Canada	USA	ROW
Reported EBIT	$ 47,215	$ 12,018	$ 22,282	$ 12,915
Write-down of equipment in COGS	1,213	-	1,213	-
(Gain) loss on disposal of idle facilities	(44)	8	9	(61)
Share-based compensation	(423)	129	(231)	(321)
Depreciation and amortization	20,220	3,184	4,823	12,213
Adjusted EBITDA	$ 68,181	$ 15,339	$ 28,096	$ 24,746

								Twelve months ended December 31, 2018
($ Canadian thousands)		**Total**		**Canada**		**USA**		**ROW**
Reported EBIT	**$**	**151,679**	**$**	**14,343**	**$**	**87,638**	**$**	**49,698**
Restructuring costs in COGS and SG&A		**2,367**		**1,429**		**-**		**938**
(Gain) loss on disposal of idle facilities		**(6,208)**		**(3,735)**		**(2,432)**		**(41)**
Cost recovery related to OOCEP		**(22,368)**		**-**		**-**		**(22,368)**
Share-based compensation		**9,938**		**1,462**		**5,047**		**3,429**
Depreciation and amortization		**89,774**		**8,535**		**23,395**		**57,844**
Adjusted EBITDA	**$**	**225,182**	**$**	**22,034**	**$**	**113,648**	**$**	**89,500**

								Twelve months ended December 31, 2017
($ Canadian thousands)		Total		Canada		USA		ROW
Reported EBIT	$	145,795	$	37,969	$	73,195	$	34,631
Restructuring costs in COGS and SG&A		940		452		-		488
Write-down of equipment in COGS		1,213		-		1,213		-
(Gain) loss on disposal of idle facilities		(22,465)		(22,474)		26		(17)
Acquisition costs		1,110		-		1,110		-
Share-based compensation		6,915		1,995		2,693		2,227
Depreciation and amortization		80,578		13,311		14,536		52,731
Adjusted EBITDA	$	214,086	$	31,253	$	92,773	$	90,060

Adjusted EBITDA for the three months ended December 31, 2018 has decreased over the same period from the prior year, while adjusted EBITDA for the twelve months ended December 31, 2018 has increased over the comparative period. Please refer to the section "Segmented Results" for additional information about results by geographic location.

There were no costs related to the ongoing arbitration proceedings with OOCEP during 2018. The fourth quarter and twelve months of 2017 included approximately $1.1 million and $8.7 million, respectively, of arbitration related costs. These amounts are not adjusted for in the calculation of Adjusted EBITDA.

Included in reported results for the fourth quarter and twelve months of 2018 were cost recoveries related to the OOCEP arbitration, totaling $13.0 million and $22.4 million, respectively. These amounts are comprised of $12.5 million for costs, fees, taxes and expenses incurred as part of the proceedings, awarded in the fourth quarter of 2018, and interest of $0.5 million on previously awarded amounts recognized in the fourth quarter, as well as $9.4 million for variation claims in respect of additional costs and delays in construction, and interest on the outstanding amounts, awarded in the third quarter of 2018.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

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

		Three months ended December 31,		Twelve months ended December 31,
($ Canadian thousands)	**2018**	2017	**2018**	2017
Bookings				
Canada	**$ 218,839**	$ 30,902	**$ 484,018**	$ 347,944
USA	**451,132**	160,560	**1,354,745**	638,165
Rest of World	**6,985**	32,128	**141,600**	154,923
Total bookings	**$ 676,956**	$ 223,590	**$ 1,980,363**	$ 1,141,032

Backlog

($ Canadian thousands)	**December 31, 2018**	December 31, 2017
Backlog		
Canada	**$ 414,816**	$ 172,918
USA	**930,595**	394,861
Rest of World	**75,210**	103,020
Total backlog	**$ 1,420,621**	$ 670,799

Bookings for the fourth quarter of 2018 represent the highest quarterly bookings in the Company's history, exceeding the previous record set in the third quarter of 2018. Bookings were higher in the fourth quarter and twelve months of 2018 compared to the same period of 2017, driven by several major project bookings in the USA and Canada segments. The USA segment continues to benefit from large international bookings for projects to be built in the Company's Houston fabrication facility. The Rest of World segment was also successful in booking a large project in Latin America during the first quarter of 2018.

Backlog improved from December 31, 2017 due to record bookings outpacing Engineered Systems revenue recognized in the period. The balance at December 31, 2018 represents the highest quarterly backlog in the Company's history, exceeding the record from the previous quarter. The trend of strengthening backlog over the past two years is reflected in a 324.2 percent increase from $334.9 million for the first quarter of 2016 to $1,420.6 million for the fourth quarter of 2018.

The movement in exchange rates resulted in an increase of $45.3 million and $56.0 million during the fourth quarter and twelve months of 2018 on foreign currency denominated bookings, compared to an increase of $2.2 million in fourth quarter of 2017 and a decrease of $31.5 million during twelve months of 2017.

SEGMENTED RESULTS

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

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

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

USA SEGMENT RESULTS

($ Canadian thousands)		Three months ended December 31, **2018**		2017		Twelve months ended December 31, **2018**		2017
Engineered Systems Bookings	**$**	**451,132**	$	160,560	**$**	**1,354,745**	$	638,165
Engineered Systems Backlog		**930,595**		394,861		**930,595**		394,861
Segment revenue	**$**	**300,149**	$	208,336	**$**	**1,004,676**	$	796,807
Intersegment revenue		**(3,641)**		(3,476)		**(24,137)**		(17,772)
Revenue	**$**	**296,508**	$	204,860	**$**	**980,539**	$	779,035
Revenue – Engineered Systems	**$**	**239,778**	$	155,892	**$**	**783,114**	$	633,703
Revenue – Service	**$**	**41,865**	$	36,426	**$**	**145,358**	$	119,398
Revenue – Rental	**$**	**14,865**	$	12,542	**$**	**52,067**	$	25,934
Operating income	**$**	**24,413**	$	22,291	**$**	**85,224**	$	73,221
EBIT	**$**	**24,394**	$	22,282	**$**	**87,638**	$	73,195
EBITDA	**$**	**30,969**	$	27,105	**$**	**111,033**	$	87,731
Segment revenue as a % of total revenue		**63.5%**		45.5%		**57.6%**		50.2%
Recurring revenue as a % of segment revenue		**19.1%**		23.9%		**20.1%**		18.7%
Operating income as a % of segment revenue		**8.2%**		10.9%		**8.7%**		9.4%
EBIT as a % of segment revenue		**8.2%**		10.9%		**8.9%**		9.4%
EBITDA as a % of segment revenue		**10.4%**		13.2%		**11.3%**		11.3%

In the fourth quarter of 2018, bookings increased by $290.6 million or 181.0 percent compared to the same period in the prior year, driven by major project wins and international projects to be built in the Company's Houston fabrication facility. Backlog in the USA segment is $930.6 million, which represents the highest level of backlog for this segment since the Company re-segmented to create the USA segment in 2014, exceeding the record set in the previous quarter. With consistently high activity levels in the region, the Company continues to see a strong bid pipeline for project work in the USA segment.

Revenue increased by $91.6 million and $201.5 million in the fourth quarter and the twelve months of 2018 compared to the same periods of 2017. Engineered Systems revenue increased over the prior year as a result of the realization of strong bookings seen in prior quarters and continued progress of certain large projects, as well as the impact of the stronger U.S. dollar in 2018 versus the comparative period. Service revenues increased over the same period from the prior year due to higher activity. Rental revenues increased as a result of the acquisition of the contract compression business from Mesa and the organic growth of the contract compression fleet.

Operating income was higher in the fourth quarter and twelve months of 2018 compared to the prior year by $2.1 million and $12.0 million respectively, due to higher revenues across all product lines and warranty provision releases due to improving warranty experience rates, partially offset by higher than projected costs impacting gross margin on certain projects as well as higher SG&A costs. Increases in SG&A were driven by increased compensation on a larger workforce and increased profit share on improved operational results.

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

REST OF WORLD SEGMENT RESULTS

		Three months ended December 31,		Twelve months ended December 31,
($ Canadian thousands)	**2018**	2017	**2018**	2017
Engineered Systems Bookings	**$ 6,985**	$ 32,128	**$ 141,600**	$ 154,923
Engineered Systems Backlog	**75,210**	103,020	**75,210**	103,020
Segment revenue	**$ 102,678**	$ 86,238	**$ 425,435**	$ 356,932
Intersegment revenue	**(450)**	(582)	**(2,603)**	(1,202)
Revenue	**$ 102,228**	$ 85,656	**$ 422,832**	$ 355,730
Revenue – Engineered Systems	**$ 34,255**	$ 23,189	**$ 169,410**	$ 115,641
Revenue – Service	**$ 36,794**	$ 32,147	**$ 139,015**	$ 124,336
Revenue – Rental	**$ 31,179**	$ 30,320	**$ 114,407**	$ 115,753
Operating income	**$ 17,822**	$ 12,854	**$ 50,005**	$ 34,614
EBIT	**$ 17,577**	$ 12,915	**$ 49,698**	$ 34,631
EBITDA	**$ 35,994**	$ 25,128	**$ 107,542**	$ 87,362
Segment revenue as a % of total revenue	**21.9%**	19.0%	**24.8%**	22.9%
Recurring revenue as a % of segment revenue	**66.5%**	72.9%	**59.9%**	67.5%
Operating income as a % of segment revenue	**17.4%**	15.0%	**11.8%**	9.7%
EBIT as a % of segment revenue	**17.2%**	15.1%	**11.8%**	9.7%
EBITDA as a % of segment revenue	**35.2%**	29.3%	**25.4%**	24.6%

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 related to projects in Australia, MEA, and Colombia.

Rest of World revenue increased by $16.6 million and $67.1 million in the fourth quarter and twelve months of 2018 compared to the same periods in the prior year, driven by higher Engineered Systems and Service revenues. Engineered Systems revenue in the quarter was higher due to projects in MEA, while Service revenues increased as a result of higher activity levels in Australia.

Operating income increased by $5.0 million and $15.4 million in the fourth quarter and twelve months of 2018 compared to the same periods of 2017. The current quarter increase is driven by the increase in revenues for the segment and a reduction in SG&A costs, partially offset by lower project margins in MEA resulting from higher estimated costs to complete certain projects. Year-to-date results are also impacted by margin erosion from the first and third quarters of 2018. SG&A costs have decreased from the prior year due to cost recoveries related to the OOCEP arbitration, totaling $13.0 million and $22.4 million for the fourth quarter and twelve months of 2018, respectively, and lower third-party costs associated with the arbitration. Decreased SG&A resulting from OOCEP proceedings was partially offset by some negative foreign exchange impacts, primarily in Mexico, and higher compensation costs for the twelve months of 2018 compared to 2017. Year-to-date results are also partially offset by the effects of restructuring activities in Australia recognized in the first quarter of 2018.

CANADA SEGMENT RESULTS

		Three months ended December 31,		Twelve months ended December 31,
($ Canadian thousands)	**2018**	2017	**2018**	2017
Engineered Systems Bookings	**$ 218,839**	$ 30,902	**$ 484,018**	$ 347,944
Engineered Systems Backlog	**414,816**	172,918	**414,816**	172,918
Segment revenue	**$ 82,621**	$ 159,996	**$ 319,223**	$ 421,077
Intersegment revenue	**(14,515)**	(447)	**(19,321)**	(2,487)
Revenue	**$ 68,106**	$ 159,549	**$ 299,902**	$ 418,590
Revenue – Engineered Systems	**$ 47,406**	$ 141,575	**$ 229,646**	$ 342,286
Revenue – Service	**$ 17,942**	$ 15,163	**$ 60,725**	$ 64,451
Revenue – Rental	**$ 2,758**	$ 2,811	**$ 9,531**	$ 11,853
Operating income	**$ 5,353**	$ 11,262	**$ 9,735**	$ 14,439
EBIT	**$ 6,269**	$ 12,018	**$ 14,343**	$ 37,969
EBITDA	**$ 8,255**	$ 15,202	**$ 22,878**	$ 51,280
Segment revenue as a % of total revenue	**14.6%**	35.5%	**17.6%**	26.9%
Recurring revenue as a % of segment revenue	**30.4%**	11.3%	**23.4%**	18.2%
Operating income as a % of segment revenue	**7.9%**	7.1%	**3.2%**	3.4%
EBIT as a % of segment revenue	**9.2%**	7.5%	**4.8%**	9.1%
EBITDA as a % of segment revenue	**12.1%**	9.5%	**7.6%**	12.3%

Bookings have increased to $218.8 million from $30.9 million a year ago, driven by several project wins in the quarter.

Revenue decreased by $91.4 million and $118.7 million for the fourth quarter and twelve months of 2018 compared to the same periods of 2017. This decrease was driven by lower Engineered Systems revenue as a result of weaker bookings seen in the first half of 2018. Service revenue increased by $2.8 million in the fourth quarter due to parts sales, however this product line decreased by $3.7 million for twelve months of 2018 due to lower activity levels. Rental revenue decreased due to lower associated equipment sales.

The Canadian segment recorded an operating income of $5.4 million and $9.7 million for the fourth quarter and twelve months of 2018 compared to $11.3 million and $14.4 million over the same periods in 2017. The decrease in operating income is due to lower gross margins from reduced revenue, partially offset by improved project margins. For the fourth quarter and twelve months of 2018, SG&A costs were consistent with the comparable periods in 2017. The Company continues to closely monitor SG&A costs in response to a challenging Canadian business environment.

Included in EBIT for the twelve months of 2018 is a gain on sale of an idle facility of $3.7 million compared to a gain on sale of $22.5 million for the same period in 2017.

INCOME TAXES

Income tax expense totaled $11.2 million or 25.6 percent and $31.1 million or 23.5 percent of earnings before tax for the three and twelve months ended December 31, 2018 compared to $16.8 million or 38.6 percent and $35.3 million or 26.5 percent of earnings before tax in the same periods of 2017. Income tax expense for the fourth quarter of 2018 was lower primarily due to the exchange rate effects on tax bases, partially offset by the effect of earnings taxed in foreign jurisdictions. Income tax expense for the twelve months of 2018 was lower primarily due to the effect of earnings taxed in foreign jurisdictions and exchange rate effects on tax bases, partially offset by the inclusion of withholding tax on dividends received from foreign subsidiaries. The change in the effective tax rate is primarily due to the mix of earnings taxed in foreign jurisdictions, as well as the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

OUTLOOK

The Company's products and services remain dependent on strength and stability in commodity prices. Stability and improvement in commodity prices are required to allow customers to continue to increase investment, which should translate to further demand for the Company's products and services. Record bookings and backlog in the second half of 2018 provide visibility for Engineered Systems revenue through 2019 and early 2020, however the Company has no assurances that bookings in future quarters will continue the strong trend seen in 2018. Bidding activity for Engineered Systems remains strong, particularly in the USA, and the Company continues to see interest for Rentals and BOOM solutions in the USA and ROW segments. Despite a healthy near-term bid pipeline in all regions, the conversion of those opportunities into bookings and backlog has moderated to start 2019. The third and fourth quarters of 2018 benefitted from numerous multi-million dollar equipment orders, which may not recur in future quarters. As a result, the Company expects quarterly bookings in 2019 to be more in line with historical activity.

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

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

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

OUTLOOK BY SEGMENT

USA

The recent performance of the USA segment has been largely driven by investment in, and production from, shale oil and gas. Stronger commodity prices throughout 2018, along with lower corporate tax rates, has led to increased activity. The Company has seen significant demand for both compression and processing equipment in 2018, required to provide takeaway capacity in underserved resource plays and maximize the value of extracted gas. The Company continues to monitor the impact of egress issues that could impact activity levels in the Permian. Enerflex anticipates these issues will be resolved in the latter half of 2019. Continued development in these resource plays should translate to further demand for Engineered Systems products, as well as contract compression solutions to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 210,000 horsepower, providing a valuable recurring revenue source that the Company will continue to grow and invest in through 2019. Given the current and anticipated future project requirements, the Company is currently expanding its Houston fabrication facility to provide additional manufacturing capacity to meet demand in the USA and ROW segments.

Rest of World

In the Rest of World segment, the Company has seen project successes in both the MEA region and in Latin America. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower. The Company continues to explore new markets and opportunities within this region in order to enhance recurring revenues, focusing on BOOM projects, and was awarded two 10-year BOOM projects in the fourth quarter of 2018, in addition to commencing operations on a previously awarded 10-year BOOM project in Latin America and being awarded an additional 10-year BOOM contract in Latin America.

Enerflex remains cautiously optimistic about the outlook in the Latin America region as customers recover from the crash in commodity prices. The Company believes that there are near-term prospects within Argentina, Brazil, and Colombia and mid- to longer-term prospects in Mexico. The Company was awarded a 10-year BOOM contract in Argentina in the fourth quarter of 2018, and signed additional long-term service and rental contracts with producers in the country. In Brazil, Enerflex agreed to a 10-year contract to provide a natural gas treatment facility in the third quarter of 2018. In Colombia, during the first quarter of 2018, Enerflex booked an Engineered Systems project and commenced operations on a previously awarded BOOM project. In Mexico, there continues to be limited investment; however, Enerflex booked a rental contract with an independent producer during the first quarter. A portion of the contracts for the Company's fleet in Mexico will expire in June 2019 and the Company elected not to participate in the bid process to replace those contracts. Enerflex expects to be able to redeploy those assets to potential projects in other regions with more project certainty and for stronger returns. With the Mexican presidential elections completed during the third quarter, there is some uncertainty on the impact to Energy Reform and capital investment, however the new President has expressed his desire to make Mexico productive again, which may be positive for the market since compression service is necessary for the oil and gas sector. Enerflex intends to continue to aggressively pursue opportunities with either Pemex or independent producers.

In Australia, Enerflex is well positioned to capitalize on the need for increased production due to the supply imbalance driven by higher liquefied natural gas exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will continue to increase as producers return to the minimum maintenance requirements for their assets, which may result in further growth for the Australian Service product line. The Company restructured the Australian operations in the first quarter in order to focus on these opportunities and enhance profitability in the region.

Canada

The Canadian market remains constrained by negative sentiment and the lack of consistent access to market that is causing uncertain pricing and limiting development potential in Canada. However, recent major project wins provide visibility on near-term Engineered Systems revenue, and the midstream sector continues to maximize the value of Canadian production, where possible. While recent liquified natural gas ("LNG") project approval has offered some future relief to the Canadian gas industry, management still expects activity to be largely subdued through 2019.

ENERFLEX STRATEGY

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

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

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

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

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

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

DEFINITIONS

The success of the Company and its business unit strategies is measured using a number of key financial performance indicators, some of which are outlined below. Some of these indicators 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 bookings, backlog, recurring revenue as a percentage of revenue, EBITDA, net debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these non-GAAP measures is provided in the section, *Non-GAAP Measures*.

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.

Recurring Revenue

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

Operating Income

Operating income assists the reader in understanding the net contributions made from the Company's core businesses after considering all SG&A expenses. Each operating segment assumes responsibility for its operating results as measured by, amongst other factors, operating income, which is defined as income before income taxes, interest (or finance) costs (net of interest income), equity earnings or loss, and gain or loss on sale of assets. Financing and related charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the operating performance of business segments.

EBIT

EBIT provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed or taxed in the various jurisdictions that the Company operates in.

EBITDA

EBITDA provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed, how assets are amortized, or how the results are taxed in various jurisdictions.

Net Debt to EBITDA

Net debt is defined as short- and long-term debt less cash and cash equivalents at the end of the period which is then divided by the annualized EBITDA.

ROCE

ROCE is a measure to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Capital employed is debt and equity less cash for the trailing four quarters.

NON-GAAP MEASURES

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

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
EBITDA				
EBIT	**$ 48,240**	$ 47,215	**$ 151,679**	$ 145,795
Depreciation and amortization	**26,978**	20,220	**89,774**	80,578
EBITDA	**$ 75,218**	$ 67,435	**$ 241,453**	$ 226,373
Recurring Revenue				
Service	**$ 96,601**	$ 83,736	**$ 345,098**	$ 308,185
Rental	**48,802**	45,673	**176,005**	153,540
Total Recurring Revenue	**$ 145,403**	$ 129,409	**$ 521,103**	$ 461,725
ROCE				
Trailing 12-month EBIT	**$ 151,679**	$ 145,795	**$ 151,679**	$ 145,795
Capital Employed - beginning of period				
Net debt	**$ 159,149**	$ 202,758	**$ 232,726**	$ 226,402
Shareholders' equity	**1,199,800**	1,115,155	**1,134,472**	1,117,627
	$ 1,358,949	$ 1,317,913	**$ 1,367,198**	$ 1,344,029
Capital Employed - end of period				
Net debt	**$ 117,848**	$ 232,726	**$ 117,848**	$ 232,726
Shareholders' equity	**1,282,519**	1,134,472	**1,282,519**	1,134,472
	$ 1,400,367	$ 1,367,198	**$ 1,400,367**	$ 1,367,198
Average Capital Employed[1]	**$ 1,386,863**	$ 1,342,871	**$ 1,386,863**	$ 1,342,871
Return on Capital Employed	**10.9%**	10.9%	**10.9%**	10.9%

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

FREE CASH FLOW

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2018**	2017	**2018**	2017
Cash provided by operating activities	**$ 108,434**	$ 12,485	**$ 242,868**	$ 179,251
Net change in non-cash working capital and other	**37,983**	(47,972)	**38,208**	9,736
	$ 70,451	$ 60,457	**$ 204,660**	$ 169,515
Add-back:				
Net finance costs	**4,574**	3,740	**19,145**	12,727
Current income tax expense	**2,075**	2,007	**20,871**	27,525
Deduct:				
Net interest paid	**(8,331)**	(3,927)	**(18,373)**	(11,957)
Net cash taxes paid	**(2,013)**	(125)	**(2,273)**	(31,580)
Dividends paid	**(8,435)**	(7,526)	**(33,676)**	(30,066)
Net capital spending	**(63,766)**	(35,386)	**(102,457)**	(13,159)
Free cash flow	**$ (5,445)**	$ 19,240	**$ 87,897**	$ 123,005

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	**Revenue[1]**	**Net earnings[1]**	**Earnings per share – basic[1]**	**Earnings per share – diluted[1]**
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
March 31, 2017	354,787	24,517	0.28	0.28
December 31, 2016	343,385	(45,488)	(0.54)	(0.54)
September 30, 2016	262,449	17,596	0.23	0.23

[1] Amounts presented are from continuing operations.

($ Canadian thousands, except per share amounts)	**Total Assets**	**Total Non-Current Financial Liabilities**	**Cash Dividends Declared Per Share**
December 31, 2018	**$ 2,482,859**	**$ 444,712**	**$ 0.39**
December 31, 2017	2,130,602	460,010	0.35
December 31, 2016	1,881,943	393,963	0.34
December 31, 2015	2,209,264	528,140	0.34
December 31, 2014	2,144,988	505,076	0.31
December 31, 2013	1,416,079	92,935	0.28

FINANCIAL POSITION

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

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets and liabilities	$85.1	The increase in current assets and liabilities is due to higher cash and accounts receivable balances, as well as lower accounts payable balances, partially offset by higher deferred revenues. Accounts receivable increased due to higher activity levels, as well as amounts owing from OOCEP, which were reclassified to accounts receivable from other assets in the year. Deferred revenues increased due to higher activity levels.
Property, plant and equipment	$(8.5)	The decrease in property, plant and equipment is due to the sale of idle facilities in the Canada and USA segments, as well as depreciation of property, plant and equipment assets, partially offset by additions in the year.
Rental equipment	$78.6	The increase in rental assets is due to continued investment in the contract compression rental fleet in the USA segment and the strengthening of the U.S. dollar relative to the Canadian dollar, offset by depreciation of rental equipment.
Total assets	$352.3	The increase in total assets is primarily related to the increase in cash, accounts receivable, and rental equipment and the impact of the strengthening U.S. dollar relative to the Canadian dollar, partially offset by the decrease in inventories, property, plant and equipment, and other assets.
Long-term debt	$(15.3)	The decrease in long-term debt is due to repayments made on the Bank Facility, partially offset by the strengthening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$147.9	Shareholders' equity before non-controlling interest increased due to net earnings of $101.0 million, $8.7 million of stock option impacts, $2.7 million opening retained earnings adjustment on adoption of IFRS 15 and $70.1 million unrealized gain on translation of foreign operations, partially offset by dividends of $34.6 million.

During the fourth quarter, the Company received the final ruling of the OOCEP arbitration, with the tribunal awarding Enerflex an amount of $12.5 million for costs, fees, taxes and expenses incurred as part of the proceedings. In addition, interest of $0.5 million was recognized on previously awarded amounts. The tribunal also dismissed the respondent's claim for costs. The earnings impact, net of tax, of $11.1 million has been recognized in the fourth quarter results. At December 31, 2018, the amount owing for all awards was $54.7 million and interest on the outstanding amounts totaled $4.8 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2018, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at December 31, 2018, the Company held cash and cash equivalents of $326.9 million and had cash drawings of $124.9 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $571.9 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 0.5:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 12:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended December 31, **2018**	 2017	Twelve months ended December 31, **2018**	 2017
Cash, beginning of period	**$ 267,121**	$ 260,371	**$ 227,284**	$ 167,561
Cash provided by (used in):				
Operating activities	**108,434**	12,485	**242,868**	179,251
Investing activities	**(62,434)**	(34,392)	**(100,410)**	(154,838)
Financing activities	**12,502**	(11,075)	**(44,450)**	37,455
Exchange rate changes on foreign currency cash	**1,241**	(105)	**1,572**	(2,145)
Cash, end of period	**$ 326,864**	$ 227,284	**$ 326,864**	$ 227,284

Operating Activities

For the three and twelve months ended December 31, 2018, as compared with the same period in 2017, cash provided by operating activities increased primarily due to changes in non-cash working capital and improved net earnings.

Investing Activities

For the three months ended December 31, 2018 cash used in investing activities increased due to additions to rental equipment. For the twelve months ended December 31, 2018 cash used in investing activities decreased due to the Mesa acquisition in the third quarter of 2017, partially offset by continued investment in rental equipment.

Financing Activities

For the three months ended December 31, 2018, cash provided by financing activities increased primarily due to draws on the credit facility. For the twelve months ended December 31, 2018 cash used in financing activities increased due to repayment of the credit facility and dividends paid in the period.

RISK MANAGEMENT

In the normal course of business, the Company is exposed to financial and operating risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. The Company enters into derivative financial agreements to manage exposure to fluctuations in exchange rates and interest rates, but not for speculative purposes.

Energy Prices, Industry Conditions, and the Cyclical Nature of the Energy Industry

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. The capital expenditures of these companies, along with those midstream companies who service these oil and gas producers and explorers, drive the demand for Enerflex's equipment. Capital expenditure decisions are based on various factors, including but not limited to: demand for hydrocarbons and prices of related products; exploration and development prospects in various jurisdictions; production levels of their reserves; oil and natural gas prices; and access to capital — none of which can be accurately predicted. Periods of prolonged or substantial reductions in commodity prices, which are currently being experienced, may lead to reduced levels of exploration and production activities, and therefore reduced capital expenditures, which may negatively impact the demand for the products and services that Enerflex offers. Even the perception of lower oil or gas prices over the long term can result in a decision to cancel or postpone exploration and production capital expenditures, which may lead to a reduced demand for products and services offered by Enerflex.

The demand for oil and gas is influenced by a number of factors, including the outlook for worldwide economies, as well as the activities of the Organization of Petroleum Exporting Countries ("OPEC"). Changing political, economic or military circumstances throughout the energy producing regions of the world may impact the demand for oil and natural gas for extended periods of time, which in turn impacts the price of oil and natural gas. If economic conditions or international markets decline unexpectedly and oil and gas producing customers decide to cancel or postpone major capital expenditures, the Company's business may be adversely impacted.

Competition

The business in which Enerflex operates in is highly competitive and there are low barriers to entry, especially the natural gas compression services and fabrication business. Enerflex has a number of competitors in all aspects of its business, both domestically and abroad. Some of these competitors, particularly in the Engineered Systems division, are large, multi-national companies. The Company's competitors may be able to adapt more quickly to technological changes within the industry and changes in economic and market conditions, more readily take advantage of acquisitions and other opportunities, and adopt more aggressive pricing policies. In addition, the Company could face significant competition from new entrants into the compression services and fabrication business. Some of Enerflex's existing competitors or new entrants may expand or fabricate new compression units that would create additional competition for the products, equipment, or services that Enerflex offers to customers. Further, the Company may not be able to take advantage of certain opportunities or make certain investments because of debt levels and other obligations.

Any of these competitive pressures could have a material adverse effect on the Company's business, financial condition, and results of operations.

Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions, and services hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, gas lift compression, refrigeration systems, and electric power equipment serving the natural gas production industry. Some of the projects that the Company participates in have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. These projects typically specify delivery dates, performance criteria and penalties for the failure to perform. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to: changes in project scope; the availability and timeliness of external approvals and other required permits; skilled labour availability and productivity; availability and cost of material and services; design, engineering, and construction errors; and the availability of contractors to deliver on commitments. Any failure to execute on such larger projects in a timely and cost-effective manner could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The Company has made significant progress on a multi-year initiative to integrate its systems and processes and bring its facilities to world-class standards. In addition, continuous improvement initiatives are in place to achieve accurate, complete, and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and project delays, as well as project costs being in excess of cost estimates. While the Company will assess the recoverability of any cost overruns, there can be no assurance that these costs will be reimbursed, which may result in a material adverse effect on our business, financial condition, results of operations, and cash flows.

Cyber Attacks or Terrorism

Enerflex may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The oil and natural gas industry has become increasingly dependent on the continued operation of sophisticated information technology systems and network infrastructure. Cyber-attacks have become more prevalent and much harder to detect and defend against. These threats may arise from a variety of sources, all ranging in sophistication from an individual hacker to alleged state-sponsored attack. A cyber threat may be generic, or it may be custom-crafted against the specific information technology used by Enerflex.

The Company has been, and will continue to be, targeted by parties using fraudulent spoof and phishing emails to misappropriate Enerflex information, or the information of our customers and suppliers, or to introduce viruses or other malware through "trojan horse" programs into computer networks of the Company, our customers and/or our suppliers. These phishing emails may appear upon a cursory review to be legitimate emails sent by a member of Enerflex, its customers or suppliers. If a member of Enerflex or a member of one of its customers or suppliers fails to recognize that a phishing email has been sent or received and responds or forwards such phishing email, this activity may corrupt the computer networks and/or confidential information of Enerflex, its customers and/or suppliers, including passwords through email or downloaded malware. In addition to spoof and phishing emails, network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents.

Security measures and employee education and training have been implemented to protect the Company's information technology systems and network infrastructure. However, the Company's mitigation measures cannot provide absolute security, and the information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee or customer error, malfeasance, or other vulnerabilities. Additionally, Enerflex is reliant on third-party service providers for certain information technology applications. While the Company conducts due-diligence and believes that these third-party service providers have adequate security measures, there can be no assurance that these security measures will prevent any cyber events or computer viruses from impacting the applications that Enerflex relies on.

If Enerflex's information technology systems were to fail and it the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions, which could damage the Company's reputation and have a material adverse effect on the business, financial condition, and results of operations.

In addition, the Company's assets may be targets of terrorist activities that could disrupt Enerflex's ability to service its customers. The Company may be required by regulators or by the future terrorist threat environment to make investments in security that cannot be predicted. The implementation of security guidelines and measures and maintenance of insurance, to the extent available, addressing such activities could increase Enerflex's costs. These types of events could materially adversely affect the Company's business and results of operations.

Personnel and Contractors

Enerflex's Engineered Systems product line requires skilled engineers and design professionals in order to maintain customer satisfaction through industry leading design, build, and installation of the Company's product offering. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and natural gas producers and other industries. In periods of high activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Enerflex's Service product line relies on the skills and availability of trained and experienced tradesmen, mechanics, and technicians to provide efficient and appropriate services to Enerflex and its customers. Hiring and retaining such individuals is critical to the success of Enerflex's business. Demographic trends are reducing the number of individuals entering the trades, making Enerflex's access to skilled individuals more difficult.

There are certain jurisdictions where Enerflex relies on third-party contractors to carry out the operation and maintenance of its equipment. The ability of our third-party contractors to find and retain individuals with the proper technical background and training is critical to the continued success of the contracted operations in these jurisdictions. If Enerflex's third-party contractors are unable to find and retain qualified operators, or the cost of these qualified operators increases substantially, the contract operations business could be materially impacted.

Additionally, in increasing measures, Enerflex is dependent upon the skills and availability of various professional and administrative personnel to meet the increasing demands of the requirements and regulations of various professional and governmental bodies.

There are few barriers to entry in a number of Enerflex's businesses, so retention of qualified staff is essential in order to differentiate Enerflex's businesses and compete in its various markets. Enerflex's success depends on key personnel and its ability to hire and retain skilled personnel, and the loss of skilled personnel could delay the completion of certain projects or otherwise adversely impact certain of our operational and financial results.

Health, Safety, and Environment Regulations

The Company is subject to a variety of federal, provincial, state, local, and international laws and regulations relating to the environment, and worker health and safety. These laws and regulations are complex, change frequently, are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time. Failure to comply with these laws and regulations may result in administrative, civil, and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance.

Compliance with environmental laws is a major consideration in the manufacturing of the Company's products, as the Company uses, generates, stores, and disposes of hazardous substances and wastes in its operations. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Certain environmental laws may impose joint and several and strict liability for environmental contamination, which may render the Company liable for remediation costs, natural resource damages, and other damages as a result of our conduct that may have been lawful at the time it occurred or the conduct of, or conditions caused by, prior owners or operators or other third parties. In addition, where contamination may be present, it is not uncommon for neighboring land owners and other third parties to file claims for personal injury, property damage, and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations, and costs associated with new information, changes in existing environmental laws and regulations or the adoption of new environmental laws and regulations could be substantial and could negatively impact financial condition, profitability and results of operations.

Enerflex may need to apply for or amend facility permits or licenses from time to time with respect to storm water or wastewater discharges, waste handling, or air emissions relating to manufacturing activities or equipment operations, which may subject Enerflex to new or revised permitting conditions. These permits and authorizations may contain numerous compliance requirements, including monitoring and reporting obligations and operational restrictions, such as emission limits, which may be onerous or costly to comply with. Given the large number of facilities in which Enerflex operates, and the numerous environmental permits and other authorizations that are applicable to our operations, the Company may occasionally identify or be notified of technical violations of certain compliance requirements. Occasionally, we have been assessed penalties for our non-compliance, and Enerflex could be subject to such penalties in the future.

The Company is also subject to various federal, provincial, state, and local laws and regulations relating to safety and health conditions in its manufacturing facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any noncompliance, as well as potential business disruption if any of its facilities, or a portion of any facility, is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations, and financial condition.

The modification or interpretation of existing HSE laws or regulations, the more vigorous enforcement of existing laws or regulations, or the adoption of new laws or regulations may also negatively impact oil and natural gas exploration, production, gathering and pipeline companies, including Enerflex customers, which in turn could have a negative impact on the Company's financial results and operations.

Foreign Corrupt Practices and Anti-Bribery Laws

The Company is required to comply with Canadian, U.S. and international laws and regulations, including those involving bribery and anti-corruption. Enerflex conducts business in many parts of the world that experience high levels of corruption, including Nigeria, Mexico, Bolivia, Peru, Brazil, Thailand, Colombia, Bahrain and, Indonesia, and our business brings us in frequent contact with foreign officials. In addition, in certain jurisdictions, including Mexico, Indonesia and Nigeria, the Company may be reliant on third-party agents to interface with its clients.

The Company has controls, policies, procedures, and training that mandate the compliance with all applicable anti-bribery and anti-corruption laws, however there can be no assurance that employees, contractors or agents will not violate these controls, policies, and procedures. It is possible that the Company or its subsidiaries could be charged with bribery or corruption as a result of the unauthorized actions of its employees, contractors or agents. If the Company is found guilty of such a violation, which could include a failure to take effective steps to prevent or address corruption by its employees, contractors or agents, the Company could be subject to onerous penalties and reputational damage. Even an investigation could lead to significant corporate disruption, high legal costs and forced settlements. In addition, bribery allegations or bribery or corruption convictions could impair the Company's ability to work with governments or nongovernmental organizations. Such convictions or allegations could result in the formal exclusion of the Company from a country or area, national or international lawsuits, government sanctions or fines, project suspension or delays, reduced market capitalization and increased investor concern.

Contracted Revenue

Many of Enerflex's customers finance their exploration and development activities through cash flow from operations, incurrence of debt, or issuance of equity. During times when oil or natural gas prices weaken, our customers are more likely to experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, which could result in customers seeking to preserve capital by seeking price concessions on contracted recurring revenue contracts, cancelling contracts or determining not to renew contracted recurring revenue contracts. In addition, the Company may be unable to renew recurring revenue contracts with customers on favorable commercial terms, if at all. Terms of new contracts or renegotiated contracts may also transfer additional risk of liquidated damages, consequential loss, liability caps, and indemnities to the Company. These factors may lead to a reduction in our revenue and net income, which could have a material adverse effect on Enerflex's business, financial condition, results from operations and cash flows. To the extent that the Company is unable to renew existing contracts or enter into new contracts that are on favorable terms to Enerflex, our overall revenue mix may change over time which could have a material adverse effect on the Company's business, results from operations and cash flows.

Availability of Raw Materials, Component Parts, or Finished Products

Enerflex purchases a broad range of materials and components in connection with its manufacturing and service activities. Some of the components used in Enerflex's products are obtained from a single source or a limited group of suppliers. Reliance on these suppliers involves several risks, including price increases, inferior component quality, and a potential inability to obtain an adequate supply of required components in a timely manner. In particular, long lead times for high demand components, such as engines, can result in project delays. While Enerflex has long standing relationships with these companies, it does not have long-term contracts with some of these sources, and the partial or complete loss of certain of these sources could have a negative impact on Enerflex's results of operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on results of operations.

Though Enerflex is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications, and delivery schedules is important to the maintenance of Enerflex customer satisfaction.

If the availability of certain OEM components and repair parts, which are generally in steady demand, is constrained or delayed, certain of Enerflex's operational or financial results may be adversely impacted.

Information Technology

We are dependent upon the availability, capacity, reliability and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. Information technology assets and protocols become increasingly important to Enerflex as it continues to expand internationally, provide information technology access to global personnel, develop web-based applications and monitoring products, and improve its business software applications. The Company has attempted to protect its information technology assets by improving its information technology general controls, updating or implementing new business applications, and hiring or training specific employees with respect to the protection and use of information technology assets.

Foreign Exchange

Enerflex reports its financial results to the public in Canadian dollars; however, a significant percentage of its revenues and expenses are denominated in currencies other than Canadian dollars. The Company identifies and hedges all significant transactional currency risks and its hedging policy remains unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 27 in the audited consolidated financial statements for the year ended 2018.

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company also sells compression and processing packages in foreign currencies, primarily the U.S. dollar. Most of Enerflex's international orders are manufactured in the United States if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company has implemented a hedging policy, applicable primarily to the Canadian domiciled business units, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. The Company utilizes a combination of foreign denominated debt and currency forward contracts to meet its hedging objective.

Under IFRS, derivative instruments that do not qualify for hedge accounting are subject to mark-to-market at the end of each period with the changes in fair value recognized in current period net earnings. The Company applies hedge accounting to the majority of its forward contracts. As such, the gains or losses on the forward contracts are deferred to accumulated other comprehensive income and reclassified to the statement of earnings when the hedged transaction affects the statement of earnings. Any hedge ineffectiveness is recognized immediately in net earnings. However, there can be no assurance that the Company will apply or qualify for hedge accounting in the future. As such, the use of currency forwards may introduce significant volatility to the Company's reported earnings.

Enerflex mitigates the impact of exchange rate fluctuations by matching expected future U.S. dollar denominated cash inflows with U.S. dollar liabilities, including foreign exchange contracts, bank debt, and accounts payable, and by manufacturing U.S. dollar denominated contracts at plants located in the United States.

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar, British pound, and Brazilian real.

Assets and liabilities of foreign subsidiaries are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income ("AOCI"). The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. Such exchange rate fluctuations could be material year-over-year relative to the overall earnings or financial position of the Company.

For the twelve months ended December 31, 2018, a 5 percent depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real would increase AOCI by $25.3 million. A 5 percent depreciation of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real would increase net earnings before tax by $6.7 million.

Enerflex has entered into a hedge of its exposure to investments in certain foreign subsidiaries, using foreign currency denominated debt. Exchange gains and losses on net investments in foreign subsidiaries are included in AOCI along with the translation gains and losses on the debt being used to hedge the net investments. The AOCI at December 31, 2017 was $72.4 million, which increased to $142.5 million at December 31, 2018 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real.

Credit Risk

A substantial portion of Enerflex's accounts receivable balances are with customers involved in the oil and natural gas industry. Many customers finance their exploration and development activities through cash flow from operations, the incurrence of debt or the issuance of equity. During times when the oil or natural gas markets weaken, customers may experience decreased cash flow from operations, or a reduction in their ability to incur debt or access equity financing. A reduction in borrowing bases under reserved-based credit facilities, the lack of availability of debt or equity financing or other factors that negatively impact our customers' financial condition may impair their ability to pay for products or services rendered. Enerflex may extend credit to certain customers for products and services that it provides during its normal course of business. Enerflex monitors its credit exposure to its customers, but there can be no certainty that a credit-related loss will not materialize or have a material adverse impact on the organization. The consolidation of energy producers and the developing trend for smaller start-up exploration corporations may alter Enerflex's exposure to credit risk. The financial failure of a customer may impair the Company's ability to collect on all or a portion of the accounts receivable balance.

The Company has remained diligent during 2018 in assessing credit levels granted to customers, monitoring the aging of receivables, and proactively collecting outstanding balances. The challenging economic conditions have resulted in financial failures in the industry but Enerflex has been able to maintain very low levels of doubtful debts. At December 31, 2018, the Company had no individual customer which accounted to more than 10 percent of its revenue. At December 31, 2017, the Company had one customer in the Canada and USA segments for which the accounts receivable balance was $77.4 million, which represented 17.4 percent of total accounts receivable

Access to Capital

Enerflex relies on its cash, as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its Bank Facility and Senior Notes to meet its funding and liquidity requirements. The Senior Notes, with various maturity dates, are senior unsecured indebtedness of the organization. The Company's Bank Facility, which is also senior unsecured indebtedness and is subject to floating rates of interest, is due on June 30, 2022 and may be renewed annually with the consent of the lenders. As of December 31, 2018, the Company had $323.7 million in Senior Notes issued and outstanding, and $124.9 million outstanding on its Bank Facility.

Significant instability or disruptions to the capital markets, including the credit markets, may impact the Company's ability to successfully re-negotiate all or part of its Bank Facility prior to its due date which could have important adverse consequences including:

- Making it more difficult to satisfy contractual obligations;
- Increasing vulnerability to general adverse economic conditions and industry conditions;
- Limiting the ability to fund future working capital, capital expenditures or acquisitions;
- Limiting the ability to refinance debt in the future or borrow additional funds to fund ongoing operations; and
- Paying future dividends to shareholders.

As at December 31, 2018, the Company had $571.9 million available in borrowing base on its Bank Facility.

The Company's Bank Facility and the Note Purchase Agreement also contain a number of covenants and restrictions which Enerflex and its subsidiaries must comply with, including but not limited to use of proceeds, limitations on our ability to incur additional indebtedness, transactions with affiliates, mergers and acquisitions, and our ability to sell assets. The Company's ability to comply with these covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, the Company's ability to comply with these covenants may be impaired. Failure to meet any of these covenants, financial ratios, or financial tests could result in events of default under each agreement which require the Company to repay its indebtedness under those agreements and could impair the Company's ability to access the capital markets for financing. While Enerflex is currently in compliance with all covenants, financial ratios, and financial tests, there can be no assurance that it will be able to comply with these covenants, financial ratios, and financial tests in future periods. These events could restrict the Company's and other guarantors' ability to fund its operations, meet its obligations associated with financial liabilities, or declare and pay dividends.

International Operations

Enerflex operates in many countries outside of Canada and the United States, and these operations account for a significant amount of the Company's revenue. Enerflex is exposed to risks inherent in conducting business in each of the countries in which it operates, including but not limited to:

- Recessions and other economic crises that may impact the Company's cost of conducting business in those countries;
- Difficulties in staffing and managing foreign operations including logistical, security, and communication challenges;
- Changes in foreign government policies, laws, regulations, and regulatory requirements, or the interpretation, application and/or enforcement thereof;
- Difficulty or expense of enforcing contractual rights due to the lack of a developed legal system or otherwise;
- Renegotiation or nullification of existing contracts;
- The adoption of new, or the expansion of existing, trade, or other restrictions;
- Difficulties, delays, and expenses that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- Embargoes;
- Acts of war, civil unrest, force majeure, and terrorism;
- Social, political, and economic instability;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- Tax increases or changes in tax laws, legislation, or regulation or in the interpretation, application and/or enforcement thereof; and
- Limitations on the Company's ability to repatriate cash, funds, or capital invested or held in jurisdictions outside Canada.

In addition, Enerflex may expand the business to markets where the Company has not previously conducted business. The risks inherent in establishing new business ventures, especially in international markets where local customs, laws, and business procedures present special challenges, may affect Enerflex's ability to be successful in these ventures.

To the extent Enerflex's international operations are affected by unexpected or adverse economic, political, and other conditions, the Company's business, financial condition, and results of operations may be adversely affected.

Distribution Agreements

One of Enerflex's strategic assets is its purchase and distribution agreements with leading manufacturers, notably for INNIO Waukesha gas engines and parts business globally and for INNIO's Jenbacher and MAN engines and parts in Canada. Enerflex is the exclusive distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Enerflex also has relationships and agreements with other key equipment manufacturers including Finning CAT (Finning International Inc.), Mustang CAT, and Ariel Corporation.

In the event that one or more of these agreements were to be terminated, Enerflex may lose a competitive advantage. While Enerflex and its people make it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue.

Interest Rate Risk

The Company's liabilities include long-term debt that may be subject to fluctuations in interest rates. The Company's Senior Notes outstanding at December 31, 2018 are at fixed interest rates and therefore will not be impacted by fluctuations in market interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates. As at December 31, 2018 the Company had $124.9 million of indebtedness that is effectively subject to floating interest rates. Changes in economic conditions outside of Enerflex's control could result in higher interest rates, thereby increasing Enerflex's interest expense which may have a material adverse impact on Enerflex's financial results, financial condition, or ability to declare and pay dividends.

For each one percent change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2018 would be approximately $1.2 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs. Any increase in market interest rates could have a material adverse impact on the Company's financial results, financial condition, or ability to declare and pay dividends.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and electric power requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow, which can have a positive impact on Enerflex. At the same time, access to many western Canadian oil and natural gas properties is limited to the period when the ground is frozen so that heavy equipment can be transported. As a result, the first quarter of the year is generally accompanied by increased winter deliveries of equipment. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and development operations, reduces the ability to supply natural gas production in the short-term, and can negatively impact the demand for Enerflex's products and services.

Liability Claims

The Company's operations entail inherent risks, including equipment defects, malfunctions and failures, and natural disasters, which could result in uncontrollable flows of natural gas or well fluids, fires, and explosions. These risks may expose the Company to substantial liability claims, which could adversely affect its projections, business, results of operations, and financial condition. Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury, loss of life, damage to property, equipment, or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these incidents, the Company could face litigation and may be held liable for those losses. The Company may not be able to adequately protect itself contractually and insurance coverage may not be available or adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations, and financial condition.

Climate Change Risks

The subject of energy and the environment has created intense public debate in Canada, the U.S., and around the world in recent years and into the foreseeable future, and could potentially have a significant impact on all aspects of the economy. There has been an increased focus in the last several years on climate change and the possible role that emissions of GHGs such as CO_2 and methane play in climate change.

Regulatory Risks

The trend in environmental regulation has been to impose more restrictions and limitations on activities that may impact the environment, including laws or regulations pertaining to the emission of CO_2 and other GHGs into the atmosphere. Any regulatory changes that impose additional environmental restrictions or requirements on the Company or its customers could increase the Company's operating costs and potentially lead to lower demand for its products and services.

There is growing concern about the connection between the burning of fossil fuels and climate change. Although the Company is not a large producer of GHGs, the products and services of the Company are primarily related to the production of hydrocarbons including crude oil and natural gas, the ultimate consumption of which is generally considered a major source of GHG emissions. Taxes on GHG emissions and mandatory emissions reduction requirements may result in increased cost and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's products and services. The Alberta carbon levy, mandatory emissions reduction programs and the new industry emissions cap in Alberta may also impair the Company's ability to provide its services economically and thus reduce the demand for the Company's services. In the USA, the EPA has begun to regulate certain sources of GHGs, including air emissions associated with oil and natural gas production particularly as they relate to the hydraulic fracturing of natural gas wells. In addition, the EPA has issued regulations requiring the reporting of GHG emissions from certain sources, including petroleum refineries and certain oil and natural gas production facilities, on an annual basis. Legislative bodies in other countries where the Company operates have also adopted GHG emission reduction programs.

The Company is unable to predict the impact of current and pending climate change and emissions reduction legislation and regulatory initiatives on the Company and its equipment or operations, or its customers' operations, and it is possible that such laws or regulations would have a material adverse effect on the Company's business, financial conditions, results of operation and cash flows.

Physical Risks

Some scientists have concluded that increasing GHG concentrations in the atmosphere may produce physical effects, such as increased severity and frequency of storms, droughts, floods, wildfires, and other climate events. To the extent there are significant climate changes in the markets Enerflex serves or areas where our assets reside, Enerflex could incur increased expenses, operations could be materially impacted, and demand for the Company's products could decrease. Such climate events have the potential to adversely affect the Company's operations or those of its clients, which could reduce revenue and increase the costs of the Company.

Technological Risks

Demand for our products may also be adversely affected by conservation plans and efforts undertaken in response to global climate change. Many governments provide, or may in the future provide, tax advantages and other subsidies to support the use and development of alternative energy technologies. Technological advances and cost declines in renewable power and electric grids, electric vehicles and batteries may pose a threat to the demand for fossil fuels, which could lead to a lower demand for the Company's products and services.

Social Risks

Non-governmental organizations, shareholders, activists, and consumers may increasingly pressure companies to make their supply chains more sustainable by using less energy and water and producing less waste. Such changing consumer preferences and pressure groups may decrease demand for fossil fuels, which again could reduce the Company's revenue.

Legislative and Regulatory Initiatives Relating to Hydraulic Fracturing

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or oil from dense subsurface rock formations. Hydraulic fracturing involves the injection of water, sand or alternative proppant and chemicals under pressure into target geological formations to fracture the surrounding rock and stimulate production. Hydraulic fracturing is typically regulated by provincial and state agencies, however recently, there has been increased public concern regarding an alleged potential for hydraulic fracturing to adversely affect drinking water supplies, and proposals have been made to enact separate federal, provincial, state, and local legislation that would increase the regulatory burden imposed on hydraulic fracturing.

If new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where our natural gas exploration and production customers operate, those customers could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities and perhaps even be precluded from drilling wells. Any such restrictions could reduce demand for Enerflex's products, and as a result could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials, and major components may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, Enerflex passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of Enerflex could be adversely affected.

Contract Compression Operations

The length of Enerflex's contract operations service contracts with customers vary based on operating conditions and customer needs. The initial contract terms typically are not long enough to enable the Company to recoup the cost of the equipment deployed in the contract operations business segment. Many of Enerflex's North American contract operations services contracts have short initial terms and after the initial term are cancelable on short notice. Enerflex cannot be sure that a substantial number of these contracts will be extended or renewed beyond the initial term or that any customer will continue to contract with Enerflex. The inability to negotiate extensions or renew a substantial portion of the Company's contract operations services contract, the renewal of such contracts at reduced rates, the inability to contract for additional services with customers, or the loss of all or a significant portion of the service contracts with any significant customer could lead to a reduction in revenues and net income and could result in asset impairments. This could have a material adverse effect upon Enerflex's business, financial condition, results of operations and cash flows.

Insurance

Enerflex's operations are subject to risks inherent in the oil and natural gas services industry, such as equipment defects, malfunctions and failures, and natural disasters with resultant uncontrollable flows of oil and natural gas, fires, spills, and explosions. These risks could expose Enerflex to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Enerflex carries insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. In addition, the Company has procured cyber security insurance designed to mitigate the cost of a cyber security breach. Executive liability insurance coverage is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

It is anticipated that appropriate insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Enerflex's current arrangements. The occurrence of a significant event outside of the scope of coverage of the Enerflex insurance policies could have a material adverse effect on the results of the organization.

CAPITAL RESOURCES

On January 31, 2019, Enerflex had 89,083,621 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 fourth quarter of 2018, the Company declared a quarterly dividend of $0.105 per share.

At December 31, 2018, the Company had drawn $124.9 million against the Bank Facility (December 31, 2017 - $160.6 million). The weighted average interest rate on the Bank Facility at December 31, 2018 was 3.5 percent (December 31, 2017 – 2.6 percent).

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

($ Canadian thousands)		**December 31, 2018**		December 31, 2017
Drawings on Bank Facility	**$**	**124,852**	$	160,576
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**158,241**		146,723
Senior Notes due December 15, 2027		**125,494**		117,815
Deferred transaction costs		**(3,875)**		(5,104)
	$	**444,712**	$	460,010

At December 31, 2018, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $164.9 million, and $283.7 million thereafter.

CONTRACTUAL OBLIGATIONS, COMMITTED CAPITAL INVESTMENT, AND OFF-BALANCE SHEET ARRANGEMENTS

The Company's contractual obligations are contained in the following table:

($ Canadian thousands)		**Leases**		**Purchase Obligations**		**Total**
2019	$	16,225	$	425,558	$	441,783
2020		11,011		5,854		16,865
2021		9,259		1,771		11,030
2022		5,450		-		5,450
2023		2,666		-		2,666
Thereafter		1,698		-		1,698
Total contractual obligations	**$**	**46,309**	**$**	**433,183**	**$**	**479,492**

The Company's lease commitments are operating leases for premises, equipment, and service vehicles.

The majority of the Company's purchase commitments relate to major components for the Engineered Systems product line and to long-term information technology and communications contracts entered into in order to reduce the overall cost of services received.

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, or capital expenditures.

RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Roska DBO, the Company's 45 percent equity investment, and the Company's 50 percent controlling interest in Geogas consortium.

On December 19, 2017, Enerflex entered into an agreement to terminate a joint operation and to purchase the assets of that joint operation for $2.8 million Brazilian real. This purchase was recorded as a transaction between shareholders. The joint operation had previously been fully consolidated and a non-controlling interest had been recorded in equity and net earnings. Upon termination of the joint operation, the non-controlling interest relating to this joint operation was reduced to nil, and a retained earnings adjustment of $0.6 million was recorded to reflect the difference between the purchase price and the amount by which the non-controlling interest was adjusted.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties is as follows:

December 31,		**2018**		2017
Associate – Roska DBO				
Revenue	**$**	**186**	$	881
Purchases		**2**		-
Accounts receivable		**-**		10
Accounts payable		**-**		-
Joint Operation – Geogas				
Revenue	**$**	**90**	$	20
Purchases		**75**		91
Accounts receivable		**236**		85
Accounts payable		-		-

All related party transactions are settled in cash.

SIGNIFICANT ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in Note 5 of the audited consolidated financial statements for the year ended December 31, 2018. The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the audited consolidated financial statements:

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. It was determined that the input method of percentage-of-completion accounting provides a faithful depiction of the transfer of control to the customer, as the Company is able to recover costs incurred relating to the satisfaction of the associated performance obligation. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression, and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

Revenue Recognition – Performance Obligation Satisfied at a Point in Time

The Company reflects revenues relating to performance obligations satisfied at a point in time when control – indicated by transfer of the legal title, physical possession, significant risks and rewards of ownership, or any combination of these indicators – is transferred to the customer.

Provisions for Warranty

Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

Business Acquisitions

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company relies on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, projected cash flows, discount rates, and earnings multiples.

Property, Plant and Equipment and Rental Equipment

Property, plant and equipment and rental equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment and rental equipment is reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and rental equipment requires judgment and is based on currently available information. Property, plant and equipment and rental equipment is also reviewed for potential impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and rental equipment constitutes a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

Impairment of Inventories

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of impairment recognized.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or group of assets exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model, which requires the Company to estimate future cash flows and use judgment to determine a suitable discount rate to calculate the present value of those cash flows.

Impairment of Goodwill

The Company tests goodwill for impairment at least on an annual basis. This requires an estimation of the value-in-use of the groups of CGUs to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and use judgment to determine a suitable discount rate in order to calculate the present value of those cash flows.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share entitlement. The determination of the share-based compensation expense for stock options and phantom share entitlement requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment, and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are described in Note 23 of the audited consolidated financial statements.

NEW ACCOUNTING POLICIES

During the year, the Company adopted the following accounting policies:

IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 establishes requirements for recognition and measurement, impairment, derecognition, and general hedge accounting. IFRS 9 supersedes IAS 39 *Financial Instruments: Recognition and Measurement*. Under IFRS 9, expected credit losses on financial assets are required to be measured through a loss allowance equal to 12-month or lifetime expected credit losses, depending on the type of financial asset and the level of credit risk. This standard was adopted on January 1, 2018, with prospective changes to allowance for doubtful accounts to reflect full lifetime expected credit losses on trade receivables. Adjustments made on transition to the new standard are detailed in Note 33 of the audited consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers ("IFRS 15")

IFRS 15 specifies how and when to recognize revenue, and introduces more informative, relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. The Company adopted IFRS 15 effective January 1, 2018. Adjustments made on transition to the new standard are detailed in Note 33.

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For the years ended December 31, 2018 and 2017 the Company had no contracts with a significant financing component. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the consolidated statements of financial position.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 16 Leases ("IFRS 16")

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

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

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

A contract 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. In assessing whether a contract conveys the right to control the use of an identified asset, the Company determines if:

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

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

The lease 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.

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

The 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 right-of-use asset, or is recorded on the statements of earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The 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 right-of-use asset is subsequently depreciated using the straight-line method over the lesser of lease term or the useful life of the underlying asset.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases, as per IFRS 16.5. 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 account for the lease right-of-use assets and lease liabilities.

The Company has completed an assessment of the impact of the new standard on policies and procedures, IT systems, and internal controls. Upon adoption of IFRS 16, the Company will record right-of-use assets and lease liabilities on the statement of financial position in accordance with the new standard. The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2019 is expected to be:

Lease right-of-use assets	$	32,292
Deferred tax assets		953
Lease liabilities		(40,138)
Other liabilities		4,352
Retained earnings adjustment	$	2,541

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

The Company has appropriate policies, procedures, and controls in place for adoption of the new standard on January 1, 2019.

IAS 28 Investments in Associates and Joint Ventures ("IAS 28")

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

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

The Company applied the amendments beginning January 1, 2019, with no significant changes to the Company's consolidated financial statements.

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying audited 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 audited 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

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2018, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that evaluation, management has concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2018, to provide reasonable assurance that: a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities; and b) information required to be disclosed is recorded, processed, summarized, and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting was adequate and effective as at December 31, 2018, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

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

While the Officers of the Company have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

SUBSEQUENT EVENTS

Subsequent to December 31, 2018, Enerflex declared a quarterly dividend of $0.105 per share, payable on April 4, 2019, to shareholders of record on March 7, 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.