MANAGEMENT'S DISCUSSION AND ANALYSIS

February 20, 2020

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, 2019 and 2018, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

The financial information reported herein has been prepared in accordance with International Financial Reporting Standards ("IFRS") and is presented in Canadian dollars unless otherwise stated.

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 2,500 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, New Zealand, 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 670,000 horsepower. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 49 service locations in Canada, the USA, Latin America, the Middle East, Asia, Australia, and New Zealand.

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 included below:

USA

- The Engineered Systems product line provides custom and standard compression packages for reciprocating and screw compressor applications from Enerflex's manufacturing 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 General Electric (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, New Mexico, North Dakota, Oklahoma, Pennsylvania, Texas, West Virginia, 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 Rentals product line in the USA operates out of Enerflex's Houston, Texas facility.

REST OF WORLD

- The Rest of World segment deploys products 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 integrated turnkey ("ITK") 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. The Rentals product line provides natural gas compression and processing equipment, including build-own-operate-maintain ("BOOM") solutions of varying size and scope, 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, process, and power generation equipment, as well as rentals, after-market service, and operations and maintenance services for gas compression and processing facilities in the region.
- The Australia region is headquartered in Brisbane, Queensland with additional locations in Queensland, New South Wales, and New Zealand providing after-market services, equipment supply, parts supply, and general asset management.
- The Asia region, with locations and operations in Indonesia, Malaysia, and Thailand, provides Engineered Systems, as well as Service capabilities, offered through the Company's local operations.
- Through its location in the United Kingdom, the Company provides customized compression, processing, and high-end refrigeration solutions in the Europe region.
- As a Platinum Power Packager of INNIO's Waukesha engines, the Company provides factory-direct access to Waukesha engines and parts in its Rest of World regions.

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 ITK power generation and gas processing facilities. Retrofit solutions provide re-engineering, reconfiguration, and repackaging 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 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, Enerflex is also the authorized distributor and service provider of INNIO's Jenbacher gas engines and parts in Canada. The Company also packages CAT engines and parts. The Service 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 horsepower to 2,000 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. Enerflex is able to combine one or more of these product offerings into an ITK solution, including civil works, piping and structural fabrication, and electrical, instrumentation, controls, and automation, as well as installation and commissioning. Enerflex's ITK offering allows customers to simplify their supply chain, eliminate interface risk, and reduce the concept-to-commissioning cycle time of major projects.

Compression packages are offered from 20 horsepower 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 dehydration and liquids recovery, refrigeration and cryogenic processing, oil and natural gas separators, 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 315,000 square feet of shop space in the USA, and approximately 40,000 square feet of shop space in Australia devoted to retrofit, service, and overhaul activities.

SERVICE

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services to our global customers. The product line 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. Additionally, the Company is a distributor for INNIO's Jenbacher gas engines and parts in Canada. Enerflex is also the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Enerflex's after-market service and support business includes 49 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 deployed across Canada, the USA, Argentina, Brazil, Colombia, Mexico, Bahrain, and Oman, and provides comprehensive contract operations services to customers in each of those regions. In addition to Enerflex's rental fleet, the Company's Rentals product line provides customers with 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 totalling over 670,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

($ Canadian thousands, except percentages and horsepower)	Three months ended December 31, 2019	Three months ended December 31, 2018	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018
Revenue	**$ 474,362**	$ 466,842	**$ 2,045,422**	$ 1,703,273
Gross margin [1]	**97,442**	81,762	**429,085**	307,973
Selling and administrative expenses	**49,070**	34,174	**197,177**	163,009
Operating income	**48,372**	47,588	**231,908**	144,964
Earnings before finance costs and income taxes ("EBIT")	**48,813**	48,240	**233,902**	151,679
Net earnings	**$ 31,436**	$ 32,480	**$ 152,128**	$ 101,416
Key Financial Performance Indicators [2]				
Engineered Systems bookings	**$ 94,509**	$ 676,956	**$ 508,916**	$ 1,980,363
Engineered Systems backlog	**467,757**	1,420,621	**467,757**	1,420,621
Recurring revenue growth [3]	**6.3%**	12.4%	**14.5%**	12.9%
Gross margin as a percentage of revenue	**20.5%**	17.5%	**21.0%**	18.1%
EBIT as a percentage of revenue [4]	**11.4%**	8.9%	**11.4%**	8.9%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA") [1]	**$ 70,234**	$ 75,218	**$ 320,461**	$ 241,453
Return on capital employed ("ROCE") [1, 4]	**15.8%**	10.9%	**15.8%**	10.9%
Rental horsepower	**674,153**	641,915	**674,153**	641,915

[1] In the fourth quarter and twelve months of 2019, Enerflex recognized $24.4 million and $26.4 million of write-offs and impairment charges on rental equipment. Of the total value recognized, $14.5 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.

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

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

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

FOURTH QUARTER AND TWELVE MONTHS OF 2019 OVERVIEW

For the three months ended December 31, 2019:

- Operating income for the fourth quarter of 2019 was consistent with the prior year, with higher gross margins being offset by the cost recoveries related to the Oman Oil Exploration and Production LLC ("OOCEP") arbitration included in SG&A costs in the prior year. Gross margin improved based on strong execution of projects from opening backlog, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA. Gross margin percentage for the quarter was 20.5 percent, compared to 17.5 percent in 2018, driven by the solid execution of a small number of large, high margin Engineered Systems projects that were booked during the second half of 2018 and increasing revenue from rentals, partially offset by impairments recognized on rental equipment in the USA and ROW segments and the margin impact of warranty experience in the quarter. As the large, high margin projects are completed in 2020, we expect margins to revert to historical levels, with modest improvements provided by growth in recurring revenues.
- The fourth quarter of 2019 includes $24.4 million of impairment charges on rental equipment, of which $2.6 million was included in the USA segment and $21.8 million was included in the ROW segment. Of the total value of impairments recognized, $14.5 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.
- Engineered Systems booking activity was low in the quarter as the oil and gas industry continues to balance growth with prudent financial management. Reduced growth capex in the sector impacts Enerflex's Engineered Systems business the hardest. The Company has ensured, and expects to continue to ensure, that costs are aligned with revenue levels expected from Engineered Systems. The movement in exchange rates resulted in a decrease of $6.8 million on foreign currency denominated backlog during the fourth quarter of 2019, compared to a $45.3 million increase in the comparable period – a $52.1 million period-over-period decrease.
- Recurring revenue grew by 6.3 percent, driven by increased service activity levels and the continued expansion of the contract compression fleet in the USA. During the quarter, the Company invested $76.5 million in rental assets, largely in the USA, where our fleet has grown by 45.2 percent on a horsepower basis in the last year and has more than doubled since the acquisition of the contract compression platform in July 2017.
- Subsequent to December 31, 2019, Enerflex declared a quarterly dividend of $0.115 per share, payable on April 2, 2020, to shareholders of record on March 12, 2020.

For the twelve months ended December 31, 2019:

- Operating income for the twelve months of 2019 improved compared to the prior year, based on strong execution of projects included in opening backlog, higher service activity levels, and the continued organic expansion of the contract compression fleet in the USA.
- Engineered Systems booking activity decreased over the twelve months of 2019 as the oil and gas industry continues to balance growth with prudent financial management. The movement in exchange rates resulted in a decrease of $35.0 million on foreign currency denominated backlog during the twelve months of 2019 compared to a $56.0 million increase in the comparative period – a $91.0 million period-over-period decrease.
- Engineered Systems backlog decreased compared to the balance at December 31, 2018 due to Engineered Systems revenue recognized in the period outpacing bookings, as well as unfavourable foreign exchange impacts. The backlog at December 31, 2019 provides visibility for Engineered Systems revenue into mid-2020.
- Recurring revenue grew by 14.5 percent, driven by increased service activity levels and the organic expansion of the contract compression fleet in the USA.

ADJUSTED EBITDA

The Company's results include items that are unique and items that management and users of the financial statements adjust for 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 historically been adjusted for presentation purposes relate generally to four categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) restructuring activities; 3) transaction costs related to M&A activity; and, 4) share-based compensation. 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.

During the fourth quarter of 2019, the Company added another adjustment related to the write-off of specialized assets acquired as part of a business combination but never utilized by Enerflex. Impairment of rental equipment included in reported EBIT for the three and twelve months ended December 31, 2019 was $24.4 million and $26.4 million, of which the USA segment recorded $2.6 million and the ROW segment recorded $21.8 million and $23.8 million. Of the total value of impairments recognized, $14.5 million relates to the write-off of specialized assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex. The Company considers this non-cash adjustment to be a unique item given these assets have not contributed to earnings since being acquired.

Management believes that identification of these items allows for a better understanding of the underlying operations of the Company based on the current assets and structure.

								Three months ended December 31, 2019
($ Canadian thousands)		**Total**		**USA**		**ROW**		**Canada**
Reported EBIT	**$**	**48,813**	**$**	**61,065**	**$**	**(18,180)**	**$**	**5,928**
Write-off of rental equipment in COGS		**14,489**		**-**		**14,489**		**-**
Write-off of facility and equipment in COGS		**614**		**-**		**614**		**-**
Restructuring costs in COGS and SG&A		**869**		**-**		**-**		**869**
Share-based compensation		**2,826**		**1,344**		**814**		**668**
Depreciation and amortization		**21,421**		**8,751**		**9,940**		**2,730**
Adjusted EBITDA	**$**	**89,032**	**$**	**71,160**	**$**	**7,677**	**$**	**10,195**

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

($ Canadian thousands)		Twelve months ended December 31, 2019 Total		USA		ROW		Canada
Reported EBIT	**$**	**233,902**	**$**	**193,825**	**$**	**537**	**$**	**39,540**
Write-off of rental equipment in COGS		**14,489**		**-**		**14,489**		**-**
Write-off of facility and equipment in COGS		**2,654**		**-**		**2,654**		**-**
Restructuring costs in COGS and SG&A		**869**		**-**		**-**		**869**
Gain on disposal of idle facilities		**(434)**		**-**		**-**		**(434)**
Share-based compensation		**7,749**		**3,838**		**1,888**		**2,023**
Depreciation and amortization		**86,559**		**33,381**		**42,846**		**10,332**
Adjusted EBITDA	**$**	**345,788**	**$**	**231,044**	**$**	**62,414**	**$**	**52,330**

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

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

Effective January 1, 2019, the Company applied IFRS 16 *Leases* ("IFRS 16") for the first time. Under IFRS 16, Enerflex recognizes a lease right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract. Under the previous standard, IAS 17 *Leases*, costs relating to operating leases were recognized on a straight-line basis as COGS and SG&A. Under IFRS 16, the Company records depreciation on lease right-of-use assets as COGS and SG&A, and records an interest expense relating to the lease liability. The amount of the depreciation and interest recorded for the three and twelve months ended December 31, 2019 was $3.5 million and $12.7 million and $0.9 million and $2.6 million, respectively. The effect of the new standard is to increase EBIT for the three and twelve months ended December 31, 2019 by $0.3 million and $2.5 million, as a portion of lease expenses are included as interest. The resulting increase in EBITDA for the three and twelve months ended December 31, 2019 was $3.8 million and $15.1 million. The standard was adopted prospectively from January 1, 2019, and accordingly the 2018 results have not been affected.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

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

($ Canadian thousands)	Three months ended December 31, 2019	Three months ended December 31, 2018	Twelve months ended December 31, 2019	Twelve months ended December 31, 2018
Bookings				
USA	**$ 72,261**	$ 451,132	**$ 340,552**	$ 1,354,745
Rest of World	**1,955**	6,985	**20,179**	141,600
Canada	**20,293**	218,839	**148,185**	484,018
Total bookings	**$ 94,509**	$ 676,956	**$ 508,916**	$ 1,980,363

($ Canadian thousands)	December 31, 2019	December 31, 2018
Backlog		
USA	**$ 320,054**	$ 930,595
Rest of World	**8,941**	75,210
Canada	**138,762**	414,816
Total backlog	**$ 467,757**	$ 1,420,621

Engineered Systems bookings in the fourth quarter and twelve months of 2019 were lower than the same periods of 2018 due to several factors, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty.

Backlog at December 31, 2019 was lower than at December 31, 2018 due to Engineered Systems revenue recognized outpacing bookings throughout 2019, as well as unfavourable foreign exchange impacts on foreign currency denominated backlog. The movement in exchange rates resulted in a decrease of $6.8 million and $35.0 million during the fourth quarter and twelve months of 2019 on foreign currency denominated backlog, compared to an increase of $45.3 million and a $56.0 million in the same periods of 2018.

Of the $467.8 million in backlog, approximately 50 percent relates to natural gas compression and 45 percent pertains to oil and gas processing, with the remaining 5 percent relating to other manufacturing projects.

SEGMENTED RESULTS

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

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

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

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Engineered Systems bookings	**$ 72,261**	$ 451,132	**$ 340,552**	$ 1,354,745
Engineered Systems backlog	**320,054**	930,595	**320,054**	930,595
Segment revenue	**$ 290,170**	$ 300,149	**$ 1,243,760**	$ 1,004,676
Intersegment revenue	**(13,385)**	(3,641)	**(48,091)**	(24,137)
Revenue	**$ 276,785**	$ 296,508	**$ 1,195,669**	$ 980,539
Revenue – Engineered Systems	**$ 207,835**	$ 239,778	**$ 947,451**	$ 783,114
Revenue – Service	**$ 48,127**	$ 41,865	**$ 172,130**	$ 145,358
Revenue – Rentals	**$ 20,823**	$ 14,865	**$ 76,088**	$ 52,067
Operating income	**$ 61,045**	$ 24,413	**$ 194,010**	$ 85,224
EBIT	**$ 61,065**	$ 24,394	**$ 193,825**	$ 87,638
EBITDA	**$ 69,816**	$ 30,969	**$ 227,206**	$ 111,033
Segment revenue as a % of total revenue	**58.3%**	63.5%	**58.5%**	57.6%
Recurring revenue growth	**21.5%**	15.9%	**25.7%**	35.8%
Operating income as a % of segment revenue	**22.1%**	8.2%	**16.2%**	8.7%
EBIT as a % of segment revenue	**22.1%**	8.2%	**16.2%**	8.9%
EBITDA as a % of segment revenue	**25.2%**	10.4%	**19.0%**	11.3%

Engineered Systems bookings of $72.3 million in the fourth quarter of 2019 represent a decrease of $378.9 million or 84.0 percent compared to the same period in the prior year. This decrease was predominantly due to producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, and uncertainty around global trade dynamics. In addition, the comparative period includes bookings of certain large projects, including international projects to be built in the Company's Houston fabrication facility, that did not recur in the current period.

Revenue decreased by $19.7 million in the fourth quarter of 2019 compared to the same period of 2018 due to lower Engineered Systems revenue, partially offset by higher Service and Rentals revenue. Engineered Systems revenue decreased due to temporary project delays on certain large projects, as well as lower opening backlog on reduced bookings throughout 2019, while Service revenue increased due to higher activity levels and Rentals revenue increased due to the organic growth of the contract compression fleet. For the twelve months of 2019, revenue increased by $215.1 million over the comparative period, driven by improved results across all product lines. Engineered Systems revenue improved over the prior year as a result of the realization of strong bookings from 2018 and continued progress of certain large projects, as well as the impact of the stronger U.S. dollar in 2019 versus the comparative period. Service revenues increased due to higher activity, while Rentals revenues increased as a result of the organic growth of the contract compression fleet, which grew by 45.2 percent on a horsepower basis in the last year. The Company has experienced continued strength in demand for after-market service and contract compression in key basins in the USA and sees a solid pipeline of opportunities for growth in those businesses.

Operating income was higher in the fourth quarter and twelve months of 2019 compared to the prior year by $36.6 million and $108.8 million, due to improved gross margin performance on strong project execution, partially offset by higher SG&A costs and the effects of impairment recognized on certain rental assets. Impairment of rental equipment included in operating income for the three and twelve months ended December 31, 2019 was $2.5 million. Increases in SG&A were driven by higher compensation on a larger workforce, partially offset by mark-to-market impacts on share-based compensation.

At December 31, 2019, the USA contract compression fleet totaled approximately 310,000 horsepower with an 87 percent utilization rate, compared to approximately 215,000 horsepower with an 86 percent utilization rate at December 31, 2018.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Engineered Systems Bookings	**$ 1,955**	$ 6,985	**$ 20,179**	$ 141,600
Engineered Systems Backlog	**8,941**	75,210	**8,941**	75,210
Segment revenue	**$ 73,909**	$ 102,678	**$ 354,680**	$ 425,435
Intersegment revenue	**(107)**	(450)	**(7,846)**	(2,603)
Revenue	**$ 73,802**	$ 102,228	**$ 346,834**	$ 422,832
Revenue – Engineered Systems	**$ 5,652**	$ 34,255	**$ 76,813**	$ 169,410
Revenue – Service	**$ 40,233**	$ 36,794	**$ 154,951**	$ 139,015
Revenue – Rentals	**$ 27,917**	$ 31,179	**$ 115,070**	$ 114,407
Operating income	**$ (18,208)**	$ 17,822	**$ 511**	$ 50,005
EBIT	**$ (18,180)**	$ 17,577	**$ 537**	$ 49,698
EBITDA	**$ (8,240)**	$ 35,994	**$ 43,383**	$ 107,542
Segment revenue as a % of total revenue	**15.6%**	21.9%	**17.0%**	24.8%
Recurring revenue growth	**0.3%**	8.8%	**6.5%**	5.6%
Operating income as a % of segment revenue	**(24.7)%**	17.4%	**0.1%**	11.8%
EBIT as a % of segment revenue	**(24.6)%**	17.2%	**0.2%**	11.8%
EBITDA as a % of segment revenue	**(11.2)%**	35.2%	**12.5%**	25.4%

Engineered Systems bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent.

Rest of World revenue decreased by $28.4 million and $76.0 million in the fourth quarter and twelve months of 2019 compared to the same periods in the prior year due to lower Engineered Systems revenues, partially offset by higher Service revenues. Engineered Systems revenue was down for both the fourth quarter and twelve months of 2019 primarily due to a lower opening backlog and reduced bookings throughout 2019, which was further reduced by the effects of customer disputes. Service revenues increased due to higher activity levels in Australia and the impact of service agreements that were recently signed in Latin America. Rentals revenues were lower in the fourth quarter due to a reduction in contracted units in Mexico, but were higher for the twelve months of 2019 on the full year contributions of certain projects that commenced operations in 2018 and the sale of idle rental units in Latin America.

Operating income decreased by $36.0 million and $49.5 million in the fourth quarter and twelve months of 2019 compared to the same periods of 2018. The current quarter decrease is driven by lower revenues and impairments recognized on certain rental assets, as well as the effects of cost recoveries recognized in SG&A in the prior year. The twelve months of 2019 was also impacted by lower revenues and higher estimated costs to complete certain projects, as well as impairments recognized on certain rental assets and a write-down of equipment. Impairment of rental equipment included in operating income for the three and twelve months ended December 31, 2019 was $21.8 million and $23.9 million. The majority of this amount relates to the write-off of specialized assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.

SG&A costs for the fourth quarter 2019 increased compared to 2018 due to the effects of cost recoveries recognized in the prior year. SG&A for the twelve months of 2019 increased compared to 2018 due to increased compensation on higher headcount and the effects of cost recoveries recognized in the prior year, partially offset by mark-to-market impacts on share-based compensation and favourable foreign exchange movements, as well as the effects of one-time restructuring activities in Australia recognized in the prior year.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Engineered Systems bookings	**$ 20,293**	$ 218,839	**$ 148,185**	$ 484,018
Engineered Systems backlog	**138,762**	414,816	**138,762**	414,816
Segment revenue	**$ 126,454**	$ 82,621	**$ 518,042**	$ 319,223
Intersegment revenue	**(2,679)**	(14,515)	**(15,123)**	(19,321)
Revenue	**$ 123,775**	$ 68,106	**$ 502,919**	$ 299,902
Revenue – Engineered Systems	**$ 106,313**	$ 47,406	**$ 424,239**	$ 229,646
Revenue – Service	**$ 15,271**	$ 17,942	**$ 67,505**	$ 60,725
Revenue – Rentals	**$ 2,191**	$ 2,758	**$ 11,175**	$ 9,531
Operating income	**$ 5,535**	$ 5,353	**$ 37,387**	$ 9,735
EBIT	**$ 5,928**	$ 6,269	**$ 39,540**	$ 14,343
EBITDA	**$ 8,658**	$ 8,255	**$ 49,872**	$ 22,878
Segment revenue as a % of total revenue	**26.1%**	14.6%	**24.6%**	17.6%
Recurring revenue growth	**(15.6)%**	15.2%	**12.0%**	(7.9)%
Operating income as a % of segment revenue	**4.5%**	7.9%	**7.4%**	3.2%
EBIT as a % of segment revenue	**4.8%**	9.2%	**7.9%**	4.8%
EBITDA as a % of segment revenue	**7.0%**	12.1%	**9.9%**	7.6%

Bookings have decreased to $20.3 million from $218.8 million a year ago, predominantly due to several factors, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, and political uncertainty. In addition, the comparative period includes bookings of certain large projects that did not recur in the current period.

Revenue increased by $55.7 million and $203.0 million for the fourth quarter and twelve months of 2019 compared to the same periods in 2018, primarily due to higher Engineered Systems revenue, which improved due to continued progress on projects from opening backlog. Service and Rentals revenues were down in the fourth quarter due to lower equipment sales and reseller activity, however both product lines increased for the twelve months of 2019 due to increased parts and equipment sales.

The Canadian segment recorded an operating income of $5.5 million and $37.4 million for the fourth quarter and twelve months of 2019 compared to operating income of $5.4 million and $9.7 million over the same periods in 2018. Operating income in the fourth quarter was consistent with the comparative period, with improved gross margin on higher revenue being offset by warranty experience and severance costs. The increase in operating income for the twelve months of 2019 is due to improved gross margin on higher revenue and improved gross margin percentage resulting from strong project execution. For the fourth quarter and twelve months of 2019, SG&A costs were consistent with the comparable periods in 2018.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, installation, construction and the start-up of equipment. The Service product line includes the sale of parts and equipment, as well as the operations and maintenance of equipment. The Rentals product line includes recurring revenues from rental agreements, and the sale of rental equipment to customers. Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature.

Three months ended December 31, 2019

($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	**$ 474,362**	**$ 319,800**	**$ 103,631**	**$ 50,931**
Cost of goods sold:				
Operating expenses	**360,445**	**240,276**	**76,623**	**43,546**
Depreciation and amortization	**16,475**	**1,828**	**1,214**	**13,433**
Gross margin	**$ 97,442** [1]	**$ 77,696**	**$ 25,794**	**$ (6,048)** [1]

Three months ended December 31, 2018

($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 466,842	$ 321,439	$ 96,601	$ 48,802
Cost of goods sold:				
Operating expenses	361,616	274,874	69,953	16,789
Depreciation and amortization	23,464	524	1,049	21,891
Gross margin	$ 81,762	$ 46,041	$ 25,599	$ 10,122

Twelve months ended December 31, 2019

($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	**$ 2,045,422**	**$ 1,448,503**	**$ 394,586**	**$ 202,333**
Cost of goods sold:				
Operating expenses	**1,550,036**	**1,159,712**	**293,924**	**96,400**
Depreciation and amortization	**66,301**	**6,681**	**3,905**	**55,715**
Gross margin	**$ 429,085** [1]	**$ 282,110**	**$ 96,757**	**$ 50,218** [1]

Twelve months ended December 31, 2018

($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 1,703,273	$ 1,182,170	$ 345,098	$ 176,005
Cost of goods sold:				
Operating expenses	1,320,588	1,012,415	251,490	56,683
Depreciation and amortization	74,712	1,192	3,593	69,927
Gross margin	$ 307,973	$ 168,563	$ 90,015	$ 49,395

[1] *In the fourth quarter and twelve months of 2019, Enerflex recognized $24.4 million and $26.4 million of write-offs and impairment charges on rental equipment . Of the total value recognized, $14.5 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.*

INCOME TAXES

Income tax expense totaled $11.9 million or 27.5 percent and $63.2 million or 29.3 percent of earnings before tax for the three and twelve months ended December 31, 2019 compared to $11.2 million or 25.6 percent and $31.1 million or 23.5 percent of earnings before tax in the same periods of 2018. Income tax expense and the effective tax rate for the fourth quarter of 2019 were higher primarily due to the effect of earnings taxed in foreign jurisdictions, partially offset by exchange rate effects on tax basis. Income tax expense and the effective tax rate for the twelve months of 2019 were higher due to an increase in earnings before tax, the revaluation of Canadian deferred tax assets due to a change in the statutory rate, the effect of earnings taxed in foreign jurisdictions, and exchange rate effects on tax bases. These increases were partially offset by withholding taxes on dividends received from subsidiaries in prior years that have not re-occurred in 2019. During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted, which will reduce Enerflex's taxes in future periods. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

OUTLOOK

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

Demand for the Company's Engineered Systems product offerings remains dependent on global capital investment in oil and natural gas. Throughout 2019, bookings activity has slowed considerably, driven by several factors including: 1) producers having made a general shift to funding growth capital expenditures from free cash flow; 2) constrained access to capital markets for producers; 3) uncertainty around global trade dynamics; and 4) political uncertainty.

Enerflex is responding to customer inquiries across all major basins in the USA, including the Permian, Bakken, Niobrara, Marcellus, and Utica, as customers plan for future growth. However, the pace at which customers are releasing capital for growth projects has moderated significantly compared to the heady days of 2018. In recent periods, the Permian Basin has been a major driver of gas production growth, with significant drilling activity and associated gas production. Future production growth in the Permian Basin looks to be transitioning away from smaller producers and toward major oil companies and large independents which are able to take a more measured approach to developing their acreage. Enerflex believes this is a positive dynamic and plays to our strengths of size, scope, and reputation; however, activity in the Basin is dependent on these producers driving a rebound in capital spending from depressed levels in 2019 to those previously seen in the recent build-out of the play. The Company maintains that the Permian is a world-class oil and associated gas resource with significant potential for continued natural gas production growth, and Enerflex is well positioned to provide long-term natural gas solutions in all major basins.

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

In the near term, the Company anticipates that strong execution on Engineered Systems project work seen in recent quarters will continue for the duration of these projects. Demand for Service and Rentals product offerings, which has continued to increase despite slower Engineered Systems bookings activity, is expected to drive growth in recurring revenue. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on our customers' activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

The recent performance of the USA segment has been largely driven by the industry's investment in shale oil and gas, particularly in the Permian Basin. While growth in the Permian has slowed in recent periods, the Company believes that improved pipeline infrastructure and the increased presence of larger, more patient producers solidify the formation's long-term production potential. Continued development in the Permian and other key resource plays should translate to further demand for Engineered Systems products, as well as contract compression solutions to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 310,000 horsepower, providing a valuable recurring revenue source that the Company intends to continue to grow organically through 2020 and beyond, provided the market remains robust.

Rest of World

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

In Latin America, Enerflex remains cautiously optimistic as many countries have indicated a renewed desire to develop oil and natural gas in recent periods. With investment opportunities becoming available, the global energy industry is returning to various prolific plays within the region. The Company is well positioned to provide products and services, and believes that there are near-term prospects within Argentina, Bolivia, Brazil, and Colombia, and mid- to longer-term prospects in Mexico.

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

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

Canada

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

ENERFLEX STRATEGY

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

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

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

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

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

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

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 IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures are Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these non-IFRS measures is provided in the section, *Non-IFRS 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 Rentals 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. Rentals 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-IFRS 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 IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. These non-IFRS measures are also used by management in its assessment of relative investments in operations and include Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net earnings or any other measure of performance under IFRS. The reconciliation of these non-IFRS measures to the most directly comparable measure calculated in accordance with IFRS is provided below where appropriate. Engineered Systems bookings and backlog do not have a directly comparable IFRS measure.

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2019**	2018	**2019**	2018
EBITDA				
EBIT	**$ 48,813**	$ 48,240	**$ 233,902**	$ 151,679
Depreciation and amortization	**21,421**	26,978	**86,559**	89,774
EBITDA	**$ 70,234**	$ 75,218	**$ 320,461**	$ 241,453
Recurring Revenue				
Service	**$ 103,631**	$ 96,601	**$ 394,586**	$ 345,098
Rentals	**50,931**	48,802	**202,333**	176,005
Total Recurring Revenue	**$ 154,562**	$ 145,403	**$ 596,919**	$ 521,103
ROCE				
Trailing 12-month EBIT	**$ 233,902**	$ 151,679	**$ 233,902**	$ 151,679
Capital Employed – beginning of period				
Net debt[1]	**$ 182,001**	$ 159,149	**$ 117,848**	$ 232,726
Shareholders' equity	**1,338,416**	1,199,800	**1,282,519**	1,134,472
	$ 1,520,417	$ 1,358,949	**$ 1,400,367**	$ 1,367,198
Capital Employed – end of period				
Net debt[1]	**$ 334,232**	$ 117,848	**$ 334,232**	$ 117,848
Shareholders' equity	**1,342,787**	1,282,519	**1,342,787**	1,282,519
	$ 1,677,019	$ 1,400,367	**$ 1,677,019**	$ 1,400,367
Average Capital Employed[2]	**$ 1,483,919**	$ 1,386,863	**$ 1,483,919**	$ 1,386,863
Return on Capital Employed	**15.8%**	10.9%	**15.8%**	10.9%

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

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

FREE CASH FLOW

($ Canadian thousands)	Three months ended December 31, 2019	2018	Twelve months ended December 31, 2019	2018
Cash provided by operating activities	**$ (82,333)**	$ 108,434	**$ 54,169**	$ 242,868
Net change in non-cash working capital and other	**(140,131)**	37,983	**(221,749)**	38,208
	$ 57,798	$ 70,451	**$ 275,918**	$ 204,660
Add-back:				
Net finance costs	**5,474**	4,574	**18,578**	19,145
Current income tax expense	**9,347**	2,075	**31,720**	20,871
Proceeds on the disposal of property, plant and equipment	**112**	(187)	**9,205**	22,853
Proceeds on the disposal of rental equipment	**1,334**	3,141	**4,454**	6,935
Deduct:				
Net interest paid	**(9,773)**	(8,331)	**(18,398)**	(18,373)
Net cash taxes paid	**(9,965)**	(2,013)	**(29,434)**	(2,273)
Additions to property, plant and equipment	**(8,289)**	(10,124)	**(46,322)**	(16,920)
Additions to rental equipment:				
Growth	**(74,481)**	(53,266)	**(208,978)**	(102,960)
Maintenance	**(2,017)**	(3,330)	**(8,090)**	(12,365)
Dividends paid	**(9,414)**	(8,435)	**(37,548)**	(33,676)
Free cash flow	**$ (39,874)**	$ (5,445)	**$ (8,895)**	$ 87,897

For the three and twelve months ended December 31, 2019 free cash flow decreased compared to the same periods in 2018. This decrease was primarily due to investment in the rental fleet, which totaled $76.5 million and $217.1 million for the fourth quarter and twelve months of 2019. Enerflex anticipates that capital expenditures on the contract compression fleet in the USA in 2020 will be consistent with levels seen in 2019. In addition, the Company will continue to spend on previously awarded BOOM projects in Latin America and MEA, with these projects expected to commence operations and begin generating revenue in mid-2020, and will deploy capital as opportunities arise in these regions or elsewhere.

FINANCIAL POSITION

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

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(200.8)	The decrease in current assets is due to lower cash and accounts receivable, partially offset by higher inventory and contract assets. Cash decreased due to expenditures on direct material inventory, rental equipment, and property, plant and equipment, while accounts receivable decreased due to collection of trade receivables and amounts owing from OOCEP. Higher inventory is due to purchases of equipment leading up to December 31, 2019, while higher contract assets were due to unbilled revenue recognized outpacing amounts billed in the year.
Property, plant and equipment	$19.8	The increase in property, plant and equipment is due to additions during the year, primarily the expansion of the Houston fabrication facility, partially offset by depreciation on property, plant and equipment assets.
Rental equipment	$103.6	The increase in rental equipment is due to additions during the year, primarily on the contract compression fleet in the USA, partially offset by depreciation and impairment charges, as well as the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated rental equipment.
Lease right-of-use assets	$60.3	The increase in lease right-of-use assets is due to the adoption of IFRS 16, which requires an asset to be recorded to reflect the Company's right to use an asset for a contracted period of time. This standard was adopted prospectively from January 1, 2019, and accordingly no lease right-of-use asset was recorded at December 31, 2018.
Current liabilities	$(169.7)	The decrease in current liabilities is due to lower deferred revenue, partially offset by higher accounts payable and current portion of lease liabilities. Lower deferred revenue was due to revenue recognized during the year on projects for which cash was received prior to December 31, 2018, as well as lower overall activity levels in 2019. Higher accounts payable was due to purchases of equipment leading up to December 31, 2019. The increase in current portion of lease liabilities is due to the adoption of IFRS 16, which requires future cash amounts owing under leases to be recorded and presented on the statement of financial position. This standard was adopted prospectively from January 1, 2019, and accordingly no lease liabilities were recorded at December 31, 2018.
Long-term debt	$(14.2)	The decrease in long-term debt is due to repayments made on the Bank Facility and the weakening U.S. dollar that impacts the revaluation of U.S. dollar denominated debt.
Lease liabilities	$52.8	The increase in lease liabilities is due to the adoption of IFRS 16, which requires future cash amounts owing under leases to be recorded and presented on the statement of financial position. This standard was adopted prospectively from January 1, 2019, and accordingly no lease liabilities were recorded at December 31, 2018.
Shareholders' equity before non-controlling interest	$60.2	Shareholders' equity before non-controlling interest increased due to $151.6 million net earnings and $10.2 million of stock options impact, partially offset by $60.7 million unrealized loss on translation of foreign operations, $2.4 million opening retained earnings adjustment on adoption of IFRS 16 and dividends of $38.5 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2020, 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, 2019, the Company held cash and cash equivalents of $96.3 million and had cash drawings of $121.3 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $557.3 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 1:1 compared to a maximum ratio of 3:1, and an interest coverage of 18:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended December 31, **2019**	2018	Twelve months ended December 31, **2019**	2018
Cash, beginning of period	**$ 219,544**	$ 267,121	**$ 326,864**	$ 227,284
Cash provided by (used in):				
Operating activities	**(82,333)**	108,434	**54,169**	242,868
Investing activities	**(57,287)**	(62,434)	**(222,820)**	(100,410)
Financing activities	**16,324**	12,502	**(60,980)**	(44,450)
Exchange rate changes on foreign currency cash	**7**	1,241	**(978)**	1,572
Cash, end of period	**$ 96,255**	$ 326,864	**$ 96,255**	$ 326,864

Operating Activities

For the three and twelve months ended December 31, 2019, cash provided by operating activities was lower than the same periods in 2018, with negative movements in non-cash working capital partially offset by improved net earnings. Non-cash working capital was primarily impacted by lower deferred revenue and higher inventories, partially offset by lower accounts receivable. Movements in non-cash working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

For the three months ended December 31, 2019 cash used in investing activities decreased due to changes in other assets. For the twelve months ended December 31, 2019, cash used in investing activities increased due to additions to rental equipment and property, plant and equipment and lower proceeds from the sale of property, plant and equipment.

Financing Activities

For the three months ended December 31, 2019, cash provided by financing activities increased primarily due to draws on long-term debt, partially offset by lease liability repayments. For the twelve months ended December 31, 2019, cash used in financing activities increased compared to 2018 due to repayment of long-term debt, lease liability repayments, and larger dividends paid in the year.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	**Revenue**	**Net earnings**	**Earnings per share – basic**	**Earnings per share – diluted**
December 31, 2019	**$ 474,362**	**$ 31,436**	**$ 0.35**	**$ 0.35**
September 30, 2019	544,284	63,074	0.71	0.70
June 30, 2019	541,874	40,649	0.45	0.45
March 31, 2019	484,902	16,969	0.19	0.19
December 31, 2018	466,842	32,480	0.37	0.36
September 30, 2018	445,803	37,696	0.43	0.42
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
December 31, 2017	450,065	26,702	0.30	0.30
September 30, 2017	315,019	25,188	0.28	0.28

($ Canadian thousands, except per share amounts)		Total Assets		Total Non-Current Financial Liabilities		Cash Dividends Declared Per Share
December 31, 2019	**$**	**2,434,506**	**$**	**430,487**	**$**	**0.43**
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

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 explorers and producers, 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; reserve production levels; oil and natural gas prices; and access to capital — none of which can be accurately predicted. Any downturn in commodity prices may lead to reduced levels of growth 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 supply and 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 is highly competitive and there are low barriers to entry, especially for natural gas compression services, contract compression, and the compression fabrication business. Several packagers target the same customers as Enerflex in a market where margins can be low and contract negotiations can be challenging. 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, contract compression, 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, operates, 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, primarily serving the natural gas production industry. The Company participates in some projects that 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 these 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 pursues continuous improvement initiatives 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.

Compliance with HSE Regulations

The Company and many of its customers are subject to a variety of federal, provincial, state, local, and international laws and regulations relating to HSE. These laws and regulations are complex, change frequently, and are becoming increasingly stringent. The cost of compliance with these requirements can be expected to increase over time thereby increasing the Company’s operating costs or negatively impacting the demand for the Company’s products and services. 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 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.

Climate Change Risks

The subject of energy and the environment has created intense public debate around the world in recent years, which is expected to continue for the foreseeable future. The direction of this debate, and any initiatives that arise as a result, could potentially have a significant impact on all aspects of the economy.

Regulatory and Policy Risks

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. The trend in environmental regulation in recent periods has been to impose more restrictions and limitations on activities that may impact the environment, including laws, regulations, and/or taxes 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 and/or its customers could increase the Company's operating costs and/or impact the demand for the Company's products and services. For example, taxes on GHG emissions, emissions reduction requirements, or carbon pricing initiatives may result in increased costs and capital expenditures for oil and natural gas producers, thereby decreasing the demand for the Company's products and services, and negatively impacting Enerflex's business prospects. Such future regulations may impose significant liabilities on failure to comply with their requirements.

The Company is unable to predict the impact of new 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

There has been public discussion that climate change may be associated with extreme weather conditions such as more intense hurricanes, droughts, forest fires, thunderstorms, tornados and snow or ice storms, as well as rising sea levels and other acute (event-driven) and chronic (long-term) climate events. Another possible consequence of climate change is increased volatility in seasonal temperatures. Some studies indicate that climate change could cause some areas to experience temperatures substantially colder or warmer than their historical averages.

To the extent there are significant climate changes in the markets Enerflex serves or areas where our assets reside, Enerflex could incur increased costs, its assets could be damaged, it could experience supply chain disruption, operations could be materially impacted (such as shut-down requirements), there may be health implications for its employees, and its customers may experience operational disruptions causing reduced demand for the Company's products. At this time, the Company is unable to determine the extent to which climate change may lead to increased climate events affecting its operations.

Technological Risks

Demand for our products may also be adversely affected by the development and demand for new technologies 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 reduce demand for fossil fuels, which could lead to a lower demand for the Company's products and services. If customer preferences shift, the Company may also be required to develop new technologies, requiring significant investments of capital and resources. At this time, the Company is unable to determine the extent to which such technological risks may impact its business prospects and financial condition.

Reputational and Market Risks

As the focus on climate-related risks and impacts increases, there is growing concern about whether or how the expansion of fossil fuel infrastructure is consistent with action on climate change. While Enerflex is focussed on providing natural gas solutions, the cleanest fossil fuel, there is potential for these concerns to have an impact on Enerflex's brand, reputation, and business prospects. Negative public perception and public protests against oil and natural gas development could negatively affect the Company's reputation. Investors and financial institutions may move funds away from the energy sector or towards investing in renewables, which could restrict funds available for the Company and its customers and negatively impact Enerflex's share price. Such changing stakeholder preferences may decrease demand for fossil fuels, which could negatively impact the Company's customers and thereby reduce demand for Enerflex's products and services, which could reduce the Company's revenue. At this time, the Company is unable to determine the extent to which such risks may impact its reputation and business prospects.

Customer 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 reserve-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 from that customer.

The Company has remained diligent during 2019 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.

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. If our customers experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, for example due to weak oil or natural gas prices or reservoir underperformance, then they may seek to preserve capital by pursuing price concessions on revenue contracts, cancelling contracts or determining not to renew contracted recurring revenue contracts. Under these circumstances, 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, 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.

Health and Safety Risks

Our operations are subject to hazardous health and safety inherent in manufacturing, construction, and operations. These risks can include explosions; fires; severe weather and natural disasters; collisions and other transportation incidents; leaks and ruptures involving vessels, pipelines, and railcars; and spills, discharges, and releases of toxic or hazardous substances or gases.

Failure to prevent or appropriately respond to a safety or health incident could result in injuries or fatalities among our employees, contractors, or residents in communities near our operations. Such incidents may lead to liabilities arising out of personal injuries or death, operational interruptions, and shutdown or abandonment of affected facilities. Preventing or responding to accidents could require Enerflex to expend significant managerial time and effort, and financial resources to remediate safety issues, compensate injured parties, or repair damaged facilities. Any of the foregoing could have an adverse impact on our financial results and our reputation.

Contract Compression Operations

The duration of Enerflex's rental contracts with customers vary based on operating conditions and customer needs. Initial contract terms typically are not long enough to enable the Company to recoup the cost of the equipment deployed in the rental business segment. Many of Enerflex's North American rental contracts have short initial terms and after the initial term are cancelable on short notice. While these contracts are frequently extended beyond their initial terms, 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 rental contracts, 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 rental 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.

International Operations

Enerflex operates in many countries outside of North America, and these operations account for a significant amount of the Company's revenue. Enerflex is exposed to risks inherent in conducting international operations, 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;
- Working in higher risk countries with increased safety and security risks;
- 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, and terrorism;
- Social, political, and economic instability;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- Tax increases or changes in tax laws 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.

Anti-Corruption and Anti-Bribery Laws

The Company is required to comply with Canadian, U.S., and international laws and regulations prohibiting bribery and corruption. Enerflex conducts business in many parts of the world that experience high levels of corruption, including but not limited to Nigeria, Mexico, Bolivia, Brazil, Thailand, Colombia, Bahrain, Kuwait, Egypt, Indonesia, and Pakistan, and our business brings us in frequent contact with foreign officials. In addition, in certain jurisdictions 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 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.

Litigation Risk and Liability Claims

In the normal course of Enerflex's operations, it may become involved in, named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings, and legal actions related to contract disputes, property damage, environmental matters, employment matters and personal injury.

The Company's operations entail inherent risks, including but not limited to equipment defects, malfunctions and failures, and natural disasters that 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 or loss of life, or 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.

Defense and settlement costs associated with lawsuits and claims can be substantial, even with respect to lawsuits and claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have an adverse effect on Enerflex's operating results or financial performance.

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. 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 and reliance on these suppliers involves several risks, including price increases, inferior component quality, unilateral termination, 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 recognized and reputable suppliers, it does not have long-term contracts with all of them, 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 and Cyberattacks

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. If any such programs or systems were to fail or create erroneous information in the Company's hardware or software network infrastructure, it could have a material adverse effect on the Company's business activities.

Enerflex may be threatened by or subjected to cyberattack risks such as cyber-fraud, viruses, malware infections, or social engineering activities like phishing and employee impersonation, which may disrupt operations and harm operating results. Cyberattacks 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 attacks. A cyberattack may be generic, or it may be custom-crafted to target the specific information technology used by Enerflex.

The Company may 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 the phishing email, the attack could corrupt the computer networks and/or access confidential information of Enerflex, its customers, employees, 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 cyberattacks 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 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.

Personnel and Contractors

The Company's ability to attract and retain qualified personnel and provide the necessary organizational structure, programs, and culture to engage and develop employees is crucial to its growth and achieving its business results.

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.

Terrorism

Terrorist activities (including environmental terrorism), anti-terrorist efforts and other armed conflicts involving Canada, the United States or other countries may adversely affect the global economies and could prevent the Company from meeting its financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for the Company's products and services and causing a reduction in the Company's revenues. In addition, the Company's assets may be direct targets of terrorist attacks 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 the maintenance of insurance, to the extent available, to address such activities could increase Enerflex's costs. These types of events could materially adversely affect the Company's business and results of operations.

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 prudent levels of 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 and executive liability insurance 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.

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 Company's Bank Facility, which is senior unsecured indebtedness and is subject to floating rates of interest, is due on June 30, 2023 and may be renewed annually with the consent of the lenders. The Senior Notes, which are also senior unsecured indebtedness of the organization, mature as follows: C$40.0 million of ten-year notes mature on June 22, 2021; U$105.0 million and C$15.0 million of seven-year notes mature on December 15, 2024; and U$70.0 million and C$30.0 million of ten-year notes mature on December 15, 2027. As of December 31, 2019, the Company had $312.3 million in Senior Notes issued and outstanding, and $121.3 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 renegotiate 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, 2019, the Company had $557.3 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 with which Enerflex and its subsidiaries must comply, 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.

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 December 31, 2019.

Transaction Exposure

The Canadian operations of the Company source the majority of their 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 operations, 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.

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, 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.

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, 2019 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, 2019 the Company had $121.3 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, 2019 would be approximately $1.2 million. All interest charges are recorded in finance costs on the consolidated statements of earnings. 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.

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.

Seasonal Factors and 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.

CAPITAL RESOURCES

On January 31, 2020, Enerflex had 89,678,845 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 2019, the Company declared a quarterly dividend of $0.115 per share.

At December 31, 2019, the Company had drawn $121.3 million against the Bank Facility (December 31, 2018 - $124.9 million). The weighted average interest rate on the Bank Facility at December 31, 2019 was 3.5 percent (December 31, 2018 – 3.5 percent).

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

($ Canadian thousands)		**December 31, 2019**		December 31, 2018
Drawings on Bank Facility	**$**	**121,328**	$	124,852
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**151,374**		158,241
Senior Notes due December 15, 2027		**120,916**		125,494
Deferred transaction costs		**(3,131)**		(3,875)
	$	**430,487**	$	444,712

At December 31, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $312.7 million, and $120.9 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**
2020	$	15,313	$	129,721	$	145,034
2021		12,915		1,795		14,710
2022		10,598		973		11,571
2023		7,570		-		7,570
2024		5,667		-		5,667
Thereafter		31,440		-		31,440
Total contractual obligations	**$**	**83,503**	**$**	**132,489**	**$**	**215,992**

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. During 2019, Enerflex acquired 65 percent investment of VAG -Flex Gas Ltda.

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:

Years ended December 31,		**2019**		2018
Associate – Roska DBO				
Revenue	**$**	**509**	$	186
Purchases		**-**		2
Accounts receivable		**4**		-
Joint Operation – Geogas				
Revenue	**$**	**62**	$	90
Purchases		**74**		75
Accounts receivable		**19**		236

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, 2019. The preparation of financial statements in conformity with IFRS 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. 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.

Right-of-Use Asset and Lease Liability

The Company determines the right-of-use asset and lease liability for each lease upon commencement. In calculating the right-of-use asset and lease liability, the Company is required to determine a suitable discount rate in order to calculate the present value of the contractual payments for the right to use the underlying asset during the lease term. In addition, the Company is required to assess the term of the lease, including if the Company is reasonably certain to exercise options to extend the lease or terminate the lease. Discount rates and lease assumptions are reassessed on a periodic basis.

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 for the year ended December 31, 2019.

NEW ACCOUNTING POLICIES

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 is effective for annual periods beginning on or after January 1, 2019. Management elected to adopt IFRS 16 using the modified retrospective approach and has included an adjustment to opening balances upon adoption to reflect the Company's financial position at January 1, 2019 had the new standard been applied in prior periods. Adjustments made on transition are detailed in Note 34 of the audited consolidated financial statements for the year ended December 31, 2019.

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

FUTURE ACCOUNTING PRONOUNCEMENTS

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

IFRS 3 Business Combinations ("IFRS 3")

Effective January 1, 2020, the definition of a business will be amended under IFRS 3. Under the amended definition, to be considered a business an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present.

Under the prior definition, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business "*if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes*". The reference to such integration is now deleted from IFRS 3 in the proposed amendment and the assessment must be based on what has been acquired in its current state and condition.

This amendment will be applied prospectively to future acquisitions. While there are no immediate impacts resulting from this amendment, this change will likely result in more acquisitions being accounted for as asset acquisitions. Application of the change could also affect the accounting for disposal transactions.

The Company applied the amendments beginning January 1, 2020, with no changes to the Company's consolidated financial statements.

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, 2019, 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, 2019, 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, 2019, 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, 2019 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, 2019, Enerflex declared a quarterly dividend of $0.115 per share, payable on April 2, 2020, to shareholders of record on March 12, 2020.

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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL POSITION

TO THE SHAREHOLDERS OF ENERFLEX LTD.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity, and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, Ernst & Young LLP, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

[signed] "Marc E. Rossiter"

Marc E. Rossiter
President, Chief Executive Officer, and Director

[signed] "Sanjay Bishnoi"

Sanjay Bishnoi
Senior Vice President, Chief Financial Officer

February 20, 2020

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

Opinion

We have audited the consolidated financial statements of Enerflex Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of earnings, comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Gord Graham.

Ernst & Young LLP

Chartered Professional Accountants
Calgary, Canada
February 20, 2020

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)		**December 31, 2019**		December 31, 2018
Assets				
Current assets				
Cash and cash equivalents	**$**	**96,255**	$	326,864
Accounts receivable (Note 7)		**384,021**		469,337
Contract assets (Note 7)		**183,890**		158,027
Inventories (Note 8)		**269,385**		176,206
Income taxes receivable		**6,626**		9,057
Derivative financial instruments (Note 27)		**152**		1,079
Other current assets		**12,223**		12,737
Total current assets		**952,552**		1,153,307
Property, plant and equipment (Note 9)		**108,551**		88,706
Rental equipment (Note 9)		**642,095**		538,489
Lease right-of-use assets (Note 10)		**60,288**		-
Deferred tax assets (Note 19)		**48,624**		53,053
Other assets (Note 11)		**26,410**		21,591
Intangible assets (Note 12)		**22,058**		28,882
Goodwill (Note 13)		**573,928**		598,831
Total assets	**$**	**2,434,506**	$	2,482,859
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities (Note 14)	**$**	**333,605**	$	306,859
Provisions (Note 15)		**18,250**		12,890
Income taxes payable		**8,074**		17,057
Deferred revenues (Note 16)		**142,907**		348,804
Current portion of lease liabilities (Note 18)		**14,172**		-
Deferred financing income		**88**		179
Derivative financial instruments (Note 27)		**375**		1,400
Total current liabilities		**517,471**		687,189
Long-term debt (Note 17)		**430,487**		444,712
Lease liabilities (Note 18)		**52,828**		-
Deferred tax liabilities (Note 19)		**76,256**		52,237
Other liabilities		**14,677**		16,202
Total liabilities	**$**	**1,091,719**	$	1,200,340
Shareholders' equity				
Share capital (Note 20)	**$**	**375,524**	$	366,120
Contributed surplus (Note 21)		**655,107**		654,324
Retained earnings		**228,843**		118,134
Accumulated other comprehensive income		**81,779**		142,492
Total shareholders' equity before non-controlling interest		**1,341,253**		1,281,070
Non-controlling interest		**1,534**		1,449
Total shareholders' equity and non-controlling interest		**1,342,787**		1,282,519
Total liabilities and shareholders' equity	**$**	**2,434,506**	$	2,482,859

See accompanying Notes to the consolidated financial statements, including guarantees, commitments, and contingencies (Note 30).

CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)		Years ended December 31, 2019		2018
Revenue (Note 22)	**$**	**2,045,422**	$	1,703,273
Cost of goods sold		**1,616,337**		1,395,300
Gross margin		**429,085**		307,973
Selling and administrative expenses		**197,177**		163,009
Operating income		**231,908**		144,964
Gain on disposal of property, plant and equipment (Note 9)		**302**		5,882
Equity earnings from associate		**1,692**		833
Earnings before finance costs and income taxes		**233,902**		151,679
Net finance costs (Note 25)		**18,578**		19,145
Earnings before income taxes		**215,324**		132,534
Income taxes (Note 19)		**63,196**		31,118
Net earnings	**$**	**152,128**	$	101,416
Net earnings attributable to:				
Controlling interest	**$**	**151,647**	$	100,999
Non-controlling interest		**481**		417
	$	**152,128**	$	101,416
Earnings per share – basic (Note 26)	**$**	**1.70**	$	1.14
Earnings per share – diluted (Note 26)	**$**	**1.70**	$	1.14
Weighted average number of shares – basic		**89,500,829**		88,709,142
Weighted average number of shares – diluted		**89,709,745**		89,088,628

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Years ended December 31,		
($ Canadian thousands)		**2019**		2018
Net earnings	**$**	**152,128**	$	101,416
Other comprehensive income (loss):				
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:				
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery		**(815)**		(318)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense		**905**		208
Unrealized gain (loss) on translation of foreign denominated debt		**3,845**		(17,781)
Unrealized gain (loss) on translation of financial statements of foreign operations		**(65,044)**		87,726
Other comprehensive income (loss)	**$**	**(61,109)**	$	69,835
Total comprehensive income	**$**	**91,019**	$	171,251
Other comprehensive income (loss) attributable to:				
Controlling interest	**$**	**(60,713)**	$	70,128
Non-controlling interest		**(396)**		(293)
	$	**(61,109)**	$	69,835

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years ended December 31,		
($ Canadian thousands)		**2019**		2018
Operating Activities				
Net earnings	**$**	**152,128**	$	101,416
Items not requiring cash and cash equivalents:				
Depreciation and amortization		**86,559**		89,774
Equity earnings from associate and joint venture		**(1,692)**		(833)
Deferred income taxes (Note 19)		**31,476**		10,247
Share-based compensation expense (Note 23)		**7,749**		9,938
Gain on sale of property, plant and equipment (Note 9)		**(302)**		(5,882)
		275,918		204,660
Net change in non-cash working capital and other (Note 29)		**(221,749)**		38,208
Cash provided by operating activities	**$**	**54,169**	$	242,868
Investing Activities				
Additions to:				
Property, plant and equipment (Note 9)	**$**	**(46,322)**	$	(16,920)
Rental equipment (Note 9)		**(217,068)**		(115,325)
Proceeds on disposal of:				
Property, plant and equipment (Note 9)		**9,205**		22,853
Rental equipment (Note 9)		**4,454**		6,935
Change in other assets		**26,911**		2,047
Cash used in investing activities	**$**	**(222,820)**	$	(100,410)
Financing Activities				
Repayment of long-term debt (Note 29)	**$**	**(15,748)**	$	(17,335)
Lease liability principal repayment (Note 18)		**(12,551)**		-
Lease interest (Note 18)		**(2,586)**		-
Dividends		**(37,548)**		(33,676)
Stock option exercises		**7,453**		6,561
Cash used in financing activities	**$**	**(60,980)**	$	(44,450)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$**	**(978)**	$	1,572
Increase (decrease) in cash and cash equivalents		**(230,609)**		99,580
Cash and cash equivalents, beginning of period		**326,864**		227,284
Cash and cash equivalents, end of period	**$**	**96,255**	$	326,864

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2018	$ 357,696	$ 654,076	$ 49,011	$ 73,325	$ (961)	$ 72,364	$ 1,133,147	$ 1,325	$ 1,134,472
IFRS 15 opening retained earnings adjustment	-	-	2,738	-	-	-	2,738	-	2,738
Net earnings	-	-	100,999	-	-	-	100,999	417	101,416
Other comprehensive income (loss)	-	-	-	70,238	(110)	70,128	70,128	(293)	69,835
Effect of stock option plans	8,424	248	-	-	-	-	8,672	-	8,672
Dividends	-	-	(34,614)	-	-	-	(34,614)	-	(34,614)
At December 31, 2018	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment (Note 34)	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	151,647	-	-	-	151,647	481	152,128
Other comprehensive income (loss)	-	-	-	(60,803)	90	(60,713)	(60,713)	(396)	(61,109)
Effect of stock option plans	9,404	783	-	-	-	-	10,187	-	10,187
Dividends	-	-	(38,509)	-	-	-	(38,509)	-	(38,509)
At December 31, 2019	**$ 375,524**	**$ 655,107**	**$ 228,843**	**$ 82,760**	**$ (981)**	**$ 81,779**	**$ 1,341,253**	**$ 1,534**	**$ 1,342,787**

See accompanying Notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enerflex Ltd. ("Enerflex" or "the Company") is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power equipment – plus 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, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 2,500 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint operations, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, Peru, the United Kingdom ("UK"), Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: USA, Rest of World, and Canada.

The following table represents material subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Ownership	Operating Segment
Enerflex Ltd.	Canada	Public Shareholders	Canada
Enerflex Energy Systems Inc.	Delaware, USA	100.0 percent	USA
Enerflex Middle East LLC	Oman	70.0 percent[1]	Rest of World
Enerflex Middle East SPC	Bahrain	100.0 percent	Rest of World

[1] *Enerflex indirectly owns 100.0 percent of Enerflex Middle East LLC.*

NOTE 2. BASIS OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on February 20, 2020. Certain prior year amounts have been reclassified to conform with the current period's presentation.

(b) Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. The accounting policies described in Note 3 and Note 4 have been applied consistently to all periods presented in these financial statements. Standards and guidelines issued but not yet effective for the current accounting period are described in Note 6.

(c) Functional Currency and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's individual entities are recorded in their own functional currency based on the primary economic environment in which it operates.

(d) Use of Estimates and Judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are described in Note 5.

(e) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, income and expenses, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

The Company holds a 50 percent ownership interest in a joint operation in Brazil. Under IFRS 10 *Consolidated Financial Statements*, the Company has determined that it has control of the arrangement as it controls the operating committee based on voting rights. As a result, the Company fully consolidates the arrangement and has recorded a non-controlling interest in equity and net earnings.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 45 percent investment in Roska DBO Inc. ("Roska DBO") and its 65 percent investment in a joint venture in Brazil. Under the equity method, the investment is carried on the consolidated statements of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate or joint venture.

The consolidated statements of earnings reflect the Company's share of the results of operations of associates and joint ventures. Unrealized gains and losses resulting from transactions between the Company and associates are eliminated to the extent of the interest in the associate or joint venture.

The Company's share of profits from associates and joint ventures is shown on the face of the consolidated statements of earnings. This is the profit attributable to equity holders of the associate and joint venture partners and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates and joint ventures.

(b) Foreign Currency Translation

In the accounts of individual subsidiaries, transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined.

The assets and liabilities on the statements of financial position of foreign subsidiaries are translated into Canadian dollars at the rates of exchange prevailing at the reporting date. The statements of earnings of foreign subsidiaries are translated at average exchange rates for the reporting period. Exchange differences arising on the translation of net assets are taken to accumulated other comprehensive income.

All foreign exchange gains and losses are taken to the consolidated statements of earnings with the exception of exchange differences arising on monetary assets and liabilities that form part of the Company's net investment in subsidiaries. These are taken directly to other comprehensive income until the disposal of the foreign subsidiary at which time the unrealized gain or loss is recognized in the consolidated statements of earnings.

On the disposal of a foreign subsidiary, accumulated exchange differences are recognized in the consolidated statements of earnings as a component of the gain or loss on disposal.

(c) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of the acquisition. Acquisition costs incurred are expensed and included in selling and administrative expenses, except for those associated with the issuance of debt, which are included in the initial carrying amount of the liability.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises the purchase price or construction cost and any costs directly attributable to making the asset capable of operating as intended. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets and commences when the assets are ready for intended use.

Asset Class	Estimated Useful Life Range
Buildings	5 to 20 years
Equipment	2 to 20 years

Major renewals and improvements are capitalized when they are expected to provide future economic benefit. When significant components of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. No depreciation is charged on land or assets under construction. Repairs and maintenance costs are charged to operations as incurred.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is included in the consolidated statements of earnings when the item is derecognized.

Each asset's estimated useful life, residual value, and method of depreciation are reviewed and adjusted, if appropriate, at each year end, or when factors and circumstances suggest a different useful life for the asset.

(e) Rental Equipment

Rental equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are generally between 5 and 20 years.

When, under the terms of a rental contract, the Company is responsible for major maintenance and overhauls, the actual overhaul cost is capitalized and depreciated over the estimated useful life of the overhaul, generally between 2 and 5 years. Repairs and maintenance costs are charged to operations as incurred.

Each asset's estimated useful life, residual value, and method of depreciation are reviewed and adjusted, if appropriate, at each year end, or when factors and circumstances suggest a different useful life for the asset.

(f) Goodwill

Goodwill arising on an acquisition of a business is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill allocated to a group of cash generating units ("CGUs") is reviewed for impairment annually, or when there is an indication that a related group of CGUs may be impaired. Impairment is determined by assessing the recoverable amount of the group of CGUs to which the goodwill relates. Where the recoverable amount of the group of CGUs is less than the carrying amount of the CGUs and related goodwill, an impairment loss is recognized in the consolidated statements of earnings. Impairment losses on goodwill are not reversed.

(g) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over management's best estimate of their expected useful lives. The amortization charge is included in selling and administrative expenses in the consolidated statements of earnings. The expected useful lives and amortization method are reviewed on an annual basis with any change in the useful life or pattern of consumption adjusted at year end. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Acquired identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Customer relationships, software, and other intangible assets have an estimated useful life range of 3 to 8 years.

(h) Impairment of Non-Financial Assets (excluding Goodwill)

At least annually, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing its value-in-use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. A corresponding impairment loss is recognized in the consolidated statements of earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Any impairment reversal is recognized in the consolidated statements of earnings.

(i) Inventories

Inventories are valued at the lower of cost and net realizable value. Serialized inventory is determined on a first-in first-out basis. Non-serialized inventory is determined based on a weighted average cost.

Cost of equipment, repair and distribution parts, and direct materials includes purchase cost and costs incurred in bringing each product to its present location and condition.

Cost of work-in-process includes cost of direct materials, labour, and an allocation of overheads, based on normal operating capacity.

Cost of inventories includes the transfer from accumulated other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. Inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

(j) Trade Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any amounts estimated to be uncollectible. The Company calculates an expected credit loss based on historical experience of bad debts and specific provisions created when there is objective evidence that the collection of the full amount of a receivable is no longer probable under the terms of the original invoice. The amount of this allowance represents management's best estimate of expected credit losses. Trade receivables are derecognized when they are assessed as uncollectible.

(k) Cash

Cash includes cash and cash equivalents, which are defined as highly liquid investments with original maturities of three months or less.

(l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(m) Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(n) Employee Future Benefits

The Company sponsors various defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. Regular contributions are made by the Company to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. The actual cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

(o) Share-Based Payments

Equity-Settled Share-Based Payments

The Company offers a Stock Option Plan to key employees, measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 23.

The fair value of equity-settled share-based payments is expensed over a five-year vesting period with a corresponding increase in equity. Stock options have a seven-year expiry and are exercisable at the designated common share price, which is determined by the average of the market price of the Company's shares on the five days preceding the date of the grant. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

Cash-Settled Share-Based Payments

The Company offers Deferred Share Unit ("DSU"), Performance Share Unit ("PSU"), Restricted Share Unit ("RSU"), and Cash Performance Target ("CPT") plans to certain employees. The Company also offers the DSU plan to non-employee directors. For each cash-settled share-based payment plan, a liability is recognized at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statements of earnings.

The Company also offers a Phantom Share Entitlement ("PSE") plan to certain employees of affiliates located in Australia and the UAE. PSEs are measured at the fair value of the equity instrument at the grant date and expensed over a five-year vesting period and expire on the seventh anniversary. The exercise price of each PSE equals the average of the market price of the Company's shares on the five days preceding the date of the grant. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statements of earnings. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

(p) Leases

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

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

The Company determines if a contractual arrangement is a lease at the inception of the contract term. The Company has identified leases for the following asset types: land and buildings (including manufacturing facilities, office space, and rental accommodations) and equipment (including vehicles, office equipment, and shop equipment). The Company recognizes 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 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, where appropriate.

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

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

The lease liability is measured at amortized cost using the effective interest method. The amount of the liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the 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 Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to effectively account for the lease right-of-use assets and lease liabilities.

Prior to January 1, 2019, the Company's policy was as follows:

Leases which transfer substantially all of the benefits and risk of ownership of the asset to the lessee are classified as finance leases; all other leases are classified as operating leases.

Company as a Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

The Company recognizes selling profit or loss in the period for outright sales relating to manufacturer type leases. Amounts due from finance leases are recorded as receivables at the amount of the Company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of leases.

Company as a Lessee

The Company does not hold any assets under finance lease. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(q) Revenue Recognition

Revenue is recognized as the Company satisfies its performance obligations by transferring promised goods or services to customers, regardless of when payment is received. Revenue is measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, and may include fixed amounts, variable amounts, or both. Variable amounts are recorded using either the "expected value approach" or the "most likely outcome approach", as determined upon initial recognition of the contract, and are reassessed at each reporting period. The expected value approach measures variable consideration by probability weighting all the potential outcomes. The most likely outcome approach measures variable consideration as management's best estimate of the variable component. In estimating variable consideration, the Company reviews any potential for returns, refunds, and other similar obligations. For contracts containing multiple performance obligations, the amount of consideration to which the Company expects to be entitled is allocated to individual performance obligations proportionately based on the stand-alone selling price.

Engineered Systems

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

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

Service

Service revenues include the sales of parts and equipment, as well as the servicing and maintenance of equipment. For the sale of parts and equipment, revenue is recognized when the transfer of control passes with the transfer of legal title of the asset, which is typically at the point of shipping. For servicing and maintenance of equipment, revenue is recognized on a straight-line basis based on performance of the contracted-upon service.

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

Rentals

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

The Company has elected to use the practical expedients in IFRS 15 paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract, respectively. For the years ended December 31, 2019 and 2018 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.

(r) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. For the purposes of measuring financial assets after initial recognition, the Company classifies financial assets as either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. For the purposes of measuring financial liabilities after initial recognition, the Company classifies all financial liabilities as amortized cost, except certain financial liabilities, such as derivatives, which are classified as fair value through profit or loss.

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an on-going basis;
- Level 2: Fair value measurements are those derived from inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these instances, internally developed methodologies are used to determine fair value.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability and may affect placement within.

The Company has made the following classifications:

- Cash and cash equivalents are measured at fair value through profit or loss. Gains and losses resulting from the periodic revaluation are recorded in the consolidated statement of earnings;
- Accounts receivable are recorded at amortized cost using the effective interest rate method; and
- Accounts payable, accrued liabilities, and long-term debt are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as fair value through profit or loss. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into the consolidated statements of earnings using the effective interest rate method.

(s) Derivative Financial Instruments and Hedge Accounting

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in foreign currency exchange rates and interest rates. The risk management policy permits the use of certain derivative financial instruments, including forward foreign exchange contracts and interest rate swaps, to manage these fluctuations. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments are measured at their fair value upon initial recognition and are remeasured to their fair value at the end of each reporting period. The fair value of quoted derivatives is equal to their positive or negative market value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for foreign exchange forward contracts for anticipated transactions. These are designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in the consolidated statements of earnings. Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statements of earnings when the hedged transaction affects the consolidated statements of earnings.

The Company's U.S. dollar denominated long-term debt has been designated as a hedge of net investment in self-sustaining foreign operations. As a result, unrealized foreign exchange gains and losses on the U.S. dollar denominated long-term debt are included in the cumulative translation account in other comprehensive income.

On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

(t) Income Taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable earnings differ from earnings as reported in the consolidated statements of earnings as it excludes temporary and permanent differences. The Company's current tax assets and liabilities are calculated by using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on all temporary differences at the reporting date based on the difference between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred income tax assets are recognized only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

Current and deferred income taxes are charged or credited directly to equity if it relates to items that are credited or charged to equity in the same period. Otherwise, income tax is recognized in the consolidated statements of earnings.

In accordance with IAS 12, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies create temporary differences with respect to the valuation of non-monetary assets and liabilities. As a result, deferred tax is recognized in the statements of earnings and the statement of financial position.

(u) Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive common shares related to the Company's equity share-based compensation plan.

(v) Finance Costs and Income

Finance income comprises interest income on funds invested and finance income from leases. Finance income is recognized as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings and interest incurred on lease liabilities.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

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 is effective for annual periods beginning on or after January 1, 2019. Management elected to adopt IFRS 16 using the modified retrospective approach and has included an adjustment to opening balances upon adoption to reflect the Company's financial position at January 1, 2019 had the new standard been applied in prior periods. Adjustments made on transition are detailed in Note 34.

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

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENT

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. 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.

Uncertainty about these assumptions and estimates could however 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 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. 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.

Right-of-Use Asset and Lease Liability

The Company determines the right-of-use asset and lease liability for each lease upon commencement. In calculating the right-of-use asset and lease liability, the Company is required to determine a suitable discount rate in order to calculate the present value of the contractual payments for the right to use the underlying asset during the lease term. In addition, the Company is required to assess the term of the lease, including if the Company is reasonably certain to exercise options to extend the lease or terminate the lease. Discount rates and lease assumptions are reassessed on a periodic basis.

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.

NOTE 6. NEW POLICIES, STANDARDS, INTERPRETATIONS, AND AMENDMENTS

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

IFRS 3 Business Combinations ("IFRS 3")

Effective January 1, 2020, the definition of a business will be amended under IFRS 3. Under the amended definition, to be considered a business an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present.

Under the prior definition, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business "*if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes*". The reference to such integration is now deleted from IFRS 3 in the proposed amendment and the assessment must be based on what has been acquired in its current state and condition.

This amendment will be applied prospectively to future acquisitions. While there are no immediate impacts resulting from this amendment, this change will likely result in more acquisitions being accounted for as asset acquisitions. Application of the change could also affect the accounting for disposal transactions.

The Company applied the amendments beginning January 1, 2020, with no changes to the Company's consolidated financial statements.

NOTE 7. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

December 31,		2019		2018
Trade receivables	**$**	**373,480**	$	406,659
Less: allowance for doubtful accounts		**(2,144)**		(992)
Trade receivables, net	**$**	**371,336**	$	405,667
Other receivables[1]		**12,685**		63,670
Total accounts receivable	**$**	**384,021**	$	469,337

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

Aging of trade receivables:

December 31,		2019		2018
Current to 90 days	**$**	**321,058**	$	371,324
Over 90 days		**52,422**		35,335
	$	**373,480**	$	406,659

Movement in allowance for doubtful accounts:

December 31,		2019		2018
Balance, January 1	**$**	**992**	$	968
Impairment provision additions on receivables		**2,162**		635
Amounts written off during the year as uncollectible		**(951)**		(652)
Currency translation effects		**(59)**		41
Closing balance	**$**	**2,144**	$	992

Movement in contract assets:

December 31,		2019		2018
Balance, January 1	**$**	**158,027**	$	134,995
IFRS 15 transitional adjustment		**-**		14,657
Unbilled revenue recognized		**698,774**		565,306
Amounts billed		**(666,896)**		(575,694)
Currency translation effects		**(6,015)**		18,763
Closing balance	**$**	**183,890**	$	158,027

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

NOTE 8. INVENTORIES

Inventories consisted of the following:

December 31,	2019	2018
Direct materials	$ 182,692	$ 84,021
Work-in-process	33,403	40,331
Repair and distribution parts	42,540	45,483
Equipment	10,750	6,371
Total inventories	$ 269,385	$ 176,206

The amount of inventory and overhead costs recognized as an expense and included in cost of goods during 2019 was $1,616.3 million (December 31, 2018 – $1,395.3 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the consolidated statements of earnings and included in cost of goods sold December 31, 2019 was $5.9 million (December 31, 2018 – $4.3 million).

NOTE 9. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2019	$ 23,034	$ 88,668	$ 59,685	$ 11,641	$ 183,028	$ 798,999
Additions	-	1,557	1,283	43,482	46,322	217,068
Reclassification	-	33,403	8,167	(44,338)	(2,768)	-
Disposals	(3,531)	(14,663)	(3,898)	-	(22,092)	(51,811)
Currency translation effects	(747)	(3,835)	(1,851)	(481)	(6,914)	(47,052)
December 31, 2019	**$ 18,756**	**$ 105,130**	**$ 63,386**	**$ 10,304**	**$ 197,576**	**$ 917,204**
Accumulated depreciation						
January 1, 2019	$ -	$ (45,216)	$ (49,106)	$ -	$ (94,322)	$ (260,510)
Depreciation charge	-	(5,039)	(5,740)	-	(10,779)	(52,916)
Impairment	-	-	-	-	-	(26,414)
Disposals	-	9,441	3,748	-	13,189	45,969
Currency translation effects	-	1,552	1,335	-	2,887	18,762
December 31, 2019	**$ -**	**$ (39,262)**	**$ (49,763)**	**$ -**	**$ (89,025)**	**$ (275,109)**
Net book value – December 31, 2019	**$ 18,756**	**$ 65,868**	**$ 13,623**	**$ 10,304**	**$ 108,551**	**$ 642,095**

		Land		Building		Equipment		Assets under construction		Total property, plant and equipment		Rental equipment
Cost												
January 1, 2018	$	24,870	$	108,427	$	61,127	$	2,300	$	196,724	$	646,907
Additions		-		525		2,169		14,226		16,920		115,325
Reclassification		-		380		3,193		(5,291)		(1,718)		(172)
Disposals		(3,143)		(26,157)		(8,792)		-		(38,092)		(12,293)
Currency translation effects		1,307		5,493		1,988		406		9,194		49,232
December 31, 2018	**$**	**23,034**	**$**	**88,668**	**$**	**59,685**	**$**	**11,641**	**$**	**183,028**	**$**	**798,999**
Accumulated depreciation												
January 1, 2018	$	-	$	(50,668)	$	(48,824)	$	-	$	(99,492)	$	(187,054)
Depreciation charge		-		(5,043)		(7,034)		-		(12,077)		(66,572)
Disposals		-		12,905		8,216		-		21,121		5,358
Currency translation effects		-		(2,410)		(1,464)		-		(3,874)		(12,242)
December 31, 2018	**$**	**-**	**$**	**(45,216)**	**$**	**(49,106)**	**$**	**-**	**$**	**(94,322)**	**$**	**(260,510)**
Net book value – December 31, 2018	**$**	**23,034**	**$**	**43,452**	**$**	**10,579**	**$**	**11,641**	**$**	**88,706**	**$**	**538,489**

Depreciation of property, plant and equipment and rental equipment included in earnings for the year ended December 31, 2019 was $63.7 million (December 31, 2018 – $78.6 million), of which $60.1 million was included in cost of goods sold (December 31, 2018 – $74.7 million) and $3.6 million was included in selling and administrative expenses (December 31, 2018 – $3.9 million).

Impairment of rental equipment included in earnings for the year ended December 31, 2019 was $26.4 million (December 31, 2018 – nil). The majority of this amount relates to the write-off of specialized assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.

Effective January 1, 2019, the estimated useful life for certain rental assets was adjusted from 15 years to 20 years to better align with the historical lifecycle of these assets. As a result, depreciation expense for the year ended December 31, 2019 decreased by approximately $13.0 million.

NOTE 10. LEASE RIGHT-OF-USE ASSETS

		Land and buildings		Equipment		Total lease right-of-use assets
Cost						
January 1, 2019	$	23,017	$	8,968	$	31,985
Additions		32,896		8,579		41,475
Disposal – end of lease term		(74)		(152)		(226)
Currency translation effects		(376)		(291)		(667)
December 31, 2019	**$**	**55,463**	**$**	**17,104**	**$**	**72,567**
Accumulated depreciation						
January 1, 2019	$	-	$	-	$	-
Depreciation charge		(8,198)		(4,457)		(12,655)
Disposal – end of lease term		74		152		226
Currency translation effects		96		54		150
December 31, 2019	**$**	**(8,028)**	**$**	**(4,251)**	**$**	**(12,279)**
Net book value – December 31, 2019	**$**	**47,435**	**$**	**12,853**	**$**	**60,288**

NOTE 11. OTHER ASSETS

December 31,		**2019**		2018
Investment in associates and joint ventures	**$**	**25,670**	$	20,284
Prepaid deposits		**198**		320
Net investment in finance leases		**542**		987
	$	**26,410**	$	21,591

Net Investment in Finance Leases

The Company entered into finance lease arrangements for certain of its rental assets. Leases are denominated in Canadian dollars. The terms of the leases entered into range from 3 to 7 years.

The value of the net investment is comprised of the following:

		Minimum lease payments				Present value of minimum lease payments		
December 31,		**2019**		2018		**2019**		2018
Less than one year	**$**	**446**	$	444	**$**	**427**	$	425
Between one and five years		**542**		987		**473**		827
	$	**988**	$	1,431	**$**	**900**	$	1,252
Less: unearned finance income		**(88)**		(179)		**-**		-
	$	**900**	$	1,252	**$**	**900**	$	1,252

The average interest rates inherent in the leases are fixed at the contract date for the entire lease term and are approximately 8.3 percent per annum (December 31, 2018 – 8.3 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 12. INTANGIBLE ASSETS

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2019	$	72,899	$	49,564	$	122,463
Additions		-		13		13
Reclassification		-		2,768		2,768
Disposal		-		(431)		(431)
Currency translation effects		(2,004)		(631)		(2,635)
December 31, 2019	**$**	**70,895**	**$**	**51,283**	**$**	**122,178**
Accumulated amortization						
January 1, 2019	$	(51,326)	$	(42,255)	$	(93,581)
Amortization charge		(4,966)		(3,694)		(8,660)
Disposal		-		431		431
Currency translation effects		1,060		630		1,690
December 31, 2019	**$**	**(55,232)**	**$**	**(44,888)**	**$**	**(100,120)**
Net book value – December 31, 2019	**$**	**15,663**	**$**	**6,395**	**$**	**22,058**

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2018	$	72,196	$	47,645	$	119,841
Reclassification		-		1,890		1,890
Disposal		(2,469)		(559)		(3,028)
Currency translation effects		3,172		588		3,760
December 31, 2018	$	72,899	$	49,564	$	122,463
Accumulated amortization						
January 1, 2018	$	(46,193)	$	(38,196)	$	(84,389)
Amortization charge		(5,057)		(4,031)		(9,088)
Disposal		1,268		559		1,827
Currency translation effects		(1,344)		(587)		(1,931)
December 31, 2018	$	(51,326)	$	(42,255)	$	(93,581)
Net book value – December 31, 2018	$	21,573	$	7,309	$	28,882

NOTE 13. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

December 31,		2019		2018
Balance, January 1	$	**598,831**	$	570,299
Currency translation effects		**(24,903)**		28,532
	$	**573,928**	$	598,831

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. For the year ended December 31, 2019, the Company did not identify any indicators of impairment.

In assessing whether goodwill has been impaired, the carrying amount of the segment (including goodwill) is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use.

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at December 31, 2019. Management has adopted a five-year projection period to assess each segment's value-in-use. The cash flow projections are based on financial budgets approved by the Board of Directors, including an inflation factor of 2.0 percent for years beyond the budget period, consistent with the approach taken by management in the prior year.

Key Assumptions Used in Value-In-Use Calculations:

The calculation of value-in-use for the Company's segments is most sensitive to the following assumptions:

- Earnings Before Finance Costs and Taxes: Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each one percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be $7.1 million; and
- Discount Rate: Management has used an average post-tax discount rate of 12.0 percent per annum which is derived from the estimated weighted average cost of capital of the Company, using the five-year average of the Company's debt to total enterprise value. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, the Company's cost of debt, and the tax rate in the local jurisdiction. For each one percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be $105.5 million.

The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the USA, Rest of World, and Canada segments exceeded the carrying amount using a 10.1 percent (December 31, 2018 – 9.1 percent), 14.2 percent (December 31, 2018 – 12.8 percent), and 11.8 percent (December 31, 2018 – 10.6 percent) post-tax discount rate, respectively.

A reasonable change in assumptions for the USA, Rest of World, and Canada segments would not trigger an impairment.

NOTE 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,		2019		2018
Accounts payable and accrued liabilities	$	**320,932**	$	293,652
Accrued dividend payable		**10,312**		9,349
Cash-settled share-based payments		**2,361**		3,858
	$	**333,605**	$	306,859

NOTE 15. PROVISIONS

December 31,		2019		2018
Warranty provision	**$**	**15,563**	$	9,720
Legal provision		**1,818**		1,121
Restructuring provision		**869**		-
Onerous lease provision		**-**		2,049
	$	**18,250**	$	12,890

2019		Warranty provision		Legal provision		Restructuring provision		Onerous lease provision		Total
Balance, January 1	$	9,720	$	1,121	$	-	$	2,049	$	12,890
IFRS 16 opening adjustment		-		-		-		(2,049)		(2,049)
Additions during the year		21,960		697		869		-		23,526
Amounts settled and released in the year		(15,777)		-		-		-		(15,777)
Currency translation effects		(340)		-		-		-		(340)
Balance, December 31	**$**	**15,563**	**$**	**1,818**	**$**	**869**	**$**	**-**	**$**	**18,250**

2018		Warranty provision		Legal provision		Restructuring provision		Onerous lease provision		Total
Balance, January 1	$	10,927	$	94	$	285	$	4,347	$	15,653
Additions during the year		9,674		1,160		150		-		10,984
Amounts settled and released in the year		(11,348)		(138)		(429)		(2,245)		(14,160)
Currency translation effects		467		5		(6)		(53)		413
Balance, December 31	$	9,720	$	1,121	$	-	$	2,049	$	12,890

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

NOTE 16. DEFERRED REVENUES

December 31,		2019		2018
Balance, January 1	**$**	**348,804**	$	143,177
IFRS 15 transitional adjustment		**-**		(33,954)
Cash received in advance of revenue recognition		**478,235**		705,468
Revenue subsequently recognized		**(673,473)**		(479,934)
Currency translation effects		**(10,659)**		14,047
Closing balance	**$**	**142,907**	$	348,804

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

NOTE 17. LONG-TERM DEBT

Through private placement, the Company has $312.3 million of unsecured notes ("Notes") issued and outstanding. These Notes consist of $105.0 million U.S. dollar and $15.0 million Canadian dollar maturing December 15, 2024 bearing an interest rate of 4.67 percent and 4.50 percent respectively, and $70.0 million U.S. dollar and $30.0 million Canadian dollar maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively, issued December 15, 2017. In addition, the Company has $40.0 million Canadian dollars of unsecured notes with an interest rate of 6.01 percent maturing on June 22, 2021.

The Company has an amended and restated syndicated revolving credit facility ("Bank Facility") with an amount available of $725.0 million. The Bank Facility has a maturity date of June 30, 2023 ("Maturity Date") but may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $150.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled repayment of principal until the maturity date of the Bank Facility. Drawings on the Bank Facility are available by way of Prime Rate loans, U.S. Base Rate loans, London Interbank Offered Rate ("LIBOR") loans, and Bankers' Acceptance notes. The Company may also draw on the Bank Facility through bank overdrafts in either Canadian or U.S. dollars and issue letters of credit under the Bank Facility.

Pursuant to the terms and conditions of the Bank Facility, a margin is applied to drawings on the Bank Facility in addition to the quoted interest rate. The margin is established in basis points and is based on a consolidated net debt to earnings before finance costs, income taxes, depreciation and amortization ("EBITDA") ratio. The margin is adjusted effective the first day of the third month following the end of each fiscal quarter based on the above ratio.

The Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2019, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2019 was 3.5 percent (December 31, 2018 – 3.5 percent).

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

December 31,		2019		2018
Drawings on Bank Facility	**$**	**121,328**	$	124,852
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**151,374**		158,241
Notes due December 15, 2027		**120,916**		125,494
Deferred transaction costs		**(3,131)**		(3,875)
	$	**430,487**	$	444,712

At December 31, 2019, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $312.7 million, and $120.9 million thereafter.

NOTE 18. LEASE LIABILITIES

		December 31, 2019
Balance, January 1	$	**39,438**
Additions		**41,973**
Lease interest		**2,586**
Payments made against lease liabilities		**(15,137)**
Currency translation effects and other		**(1,860)**
Closing balance	$	**67,000**
Current portion of lease liabilities	$	**14,172**
Non-current portion of lease liabilities		**52,828**
	$	**67,000**

In addition to the lease payments made above, during the year ended December 31, 2019 the Company paid $1.7 million relating to short-term and low-value leases which were expensed as incurred. During the year ended December 31, 2019 the Company also paid $1.7 million in variable lease payments not included in the measurement of lease liabilities, of which $0.4 million was included in cost of goods sold and $1.3 million was included in selling and administrative expenses. Interest expense on lease liabilities was $2.6 million for the year ended December 31, 2019. Total cash outflow for leases for the year ended December 31, 2019 was $19.1 million.

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

		December 31, 2019
2020	$	**15,313**
2021		**12,915**
2022		**10,598**
2023		**7,570**
2024		**5,667**
Thereafter		**31,440**
	$	**83,503**
Less:		
Imputed interest		**16,058**
Short-term leases		**400**
Low-value leases		**45**
	$	**67,000**

The Company previously disclosed future required lease payments at December 31, 2018 which were used to determine the balance of lease liabilities at January 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application was 5.1 percent. The difference between future required lease payments at December 31, 2018, discounted using this incremental borrowing rate, and lease liabilities recognized in the statement of financial position at January 1, 2019 was primarily due to short-term and low-value leases that were not included in the balance of lease liabilities.

NOTE 19. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,		2019		2018
Current income taxes	**$**	**31,720**	$	20,871
Deferred income taxes		**31,476**		10,247
	$	**63,196**	$	31,118

(b) Reconciliation of Tax Expense

The provision for income taxes differs from that which would be expected by applying Canadian statutory rates. A reconciliation of the difference is as follows:

Years ended December 31,		2019		2018
Earnings before income taxes	**$**	**215,324**	$	132,534
Canadian statutory rate		**26.5%**		27.0%
Expected income tax provision	**$**	**57,061**	$	35,784
Add (deduct):				
Exchange rate effects on tax basis		**2,125**		(2,319)
Earnings taxed in foreign jurisdictions		**(1,129)**		(5,903)
Revaluation of Canadian deferred tax assets due to change in statutory rate		**5,040**		-
Withholding tax on dividends received from foreign subsidiaries		**-**		3,188
Amounts not deductible (taxable) for tax purposes		**723**		700
Impact of accounting for associates and joint ventures		**(575)**		(338)
Other		**(49)**		6
Income tax expense from continuing operations	**$**	**63,196**	$	31,118

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (December 31, 2018 – 15.0 percent) and the provincial income tax rate of 11.5 percent (December 31, 2018 – 12.0 percent). During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

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

(c) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,		2019		2018
Deferred Tax				
Arising on income and expenses recognized in other comprehensive income:				
Fair value remeasurement of hedging instruments entered into for cash flow hedges	$	(286)	$	(130)
Arising on income and expenses reclassified from other comprehensive income to net earnings:				
Relating to cash flow hedges		276		67
Total income tax recognized in other comprehensive income	$	(10)	$	(63)

(d) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total[1]
January 1, 2019	$ 19,056	$ 32,596	$ (36,986)	$ 1,537	$ (15,776)	$ 389	$ 816
Charged to net earnings	1,276	(6,868)	(23,554)	(205)	(2,125)	-	(31,476)
Charged to OCI	-	-	-	-	-	10	10
Charged to retained earnings	96	-	576	-	-	-	672
Exchange differences	(979)	354	2,280	(2)	757	(64)	2,346
December 31, 2019	**$ 19,449**	**$ 26,082**	**$ (57,684)**	**$ 1,330**	**$ (17,144)**	**$ 335**	**$ (27,632)**

[1]Net deferred tax liabilities at December 31, 2019 of $27.6 million consist of liabilities of $76.2 million net of assets of $48.6 million.

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total
January 1, 2018	$ 21,884	$ 23,185	$ (15,577)	$ 1,732	$ (16,640)	$ 321	$ 14,905
Charged to net earnings	(2,437)	9,475	(19,410)	(194)	2,319	-	(10,247)
Charged to OCI	-	-	-	-	-	63	63
Charged to retained earnings	(892)	-	-	-	-	-	(892)
Exchange differences	501	(64)	(1,999)	(1)	(1,455)	5	(3,013)
December 31, 2018	$ 19,056	$ 32,596	$ (36,986)	$ 1,537	$ (15,776)	$ 389	$ 816

Management has determined that it is appropriate to continue to recognize the full amount of the deferred tax asset, which largely consists of accounting provision and tax losses, as all the deductible temporary difference at December 31, 2019 are expected to be utilized against future taxable profit. The recoverable amount for the deferred tax asset has been determined based on value-in-use calculations, as at December 31, 2019, and financial budgets approved by the Board of Directors, consistent with the approach taken by management in determining the recoverable amount as part of the annual assessment for goodwill impairment in Note 13. Certain of the tax losses recognized are subject to expiration in the years 2026 through 2039.

(e) Unrecognized Deferred Tax Assets

The Company has unused tax losses of $42.5 million for the year ended December 31, 2019 (December 31, 2018 – $57.4 million). Certain of these unrecognized tax losses are subject to expiration in the years 2020 through 2029. Deferred tax assets totaling $9.0 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2019 (December 31, 2018 – $14.2 million).

NOTE 20. SHARE CAPITAL AUTHORIZED

The Company is authorized to issue an unlimited number of common shares. Share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and a right to a dividend.

Issued and Outstanding

	2019			2018		
Years ended December 31,	**Number of common shares**		**Common share capital**	Number of common shares		Common share capital
Balance, January 1	**89,083,621**	**$**	**366,120**	88,540,398	$	357,696
Exercise of stock options	**595,224**		**9,404**	543,223		8,424
Balance, December 31	**89,678,845**	**$**	**375,524**	89,083,621	$	366,120

Total dividends declared in the year were $38.5 million, or $0.105 per share during the first three quarters and $0.115 per share during the last quarter of 2019 (December 31, 2018 – $34.6 million, or $0.095 during the first three quarters and $0.105 per share during the last quarter of 2018).

NOTE 21. CONTRIBUTED SURPLUS

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Changes in contributed surplus were as follows:

Years ended December 31,		**2019**		2018
Balance, January 1	**$**	**654,324**	$	654,076
Share-based compensation		**2,735**		2,112
Exercise of stock options		**(1,952)**		(1,864)
Balance, December 31	**$**	**655,107**	$	654,324

NOTE 22. REVENUE

Years ended December 31,		**2019**		2018
Engineered Systems	**$**	**1,448,503**	$	1,182,170
Service		**394,586**		345,098
Rentals		**202,333**		176,005
Total revenue	**$**	**2,045,422**	$	1,703,273

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

Years ended December 31,		2019		2018
United States	$	954,350	$	970,691
Canada		484,251		277,061
Nigeria		256,177		11,460
Oman		105,721		93,462
Australia		71,592		62,783
Mexico		46,300		47,032
Bahrain		42,864		43,587
Argentina		24,522		37,476
Colombia		17,375		35,675
Brazil		10,953		11,590
Indonesia		10,484		13,131
Other		20,833		99,325
Total revenue	$	2,045,422	$	1,703,273

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

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	467,757	$	-	$	-	$	467,757
Service		79,327		45,846		134,272		259,445
Rentals		148,403		73,651		237,433		459,487
	$	695,487	$	119,497	$	371,705	$	1,186,689

NOTE 23. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Years ended December 31,		2019		2018
Equity settled share-based payments	$	2,735	$	2,112
Deferred share units		(720)		2,294
Phantom share entitlement plan		(449)		226
Performance share units		2,754		1,778
Restricted share units		2,199		2,366
Cash performance target		1,230		1,162
Share-based compensation expense	$	7,749	$	9,938

(b) Equity-Settled Share-Based Payments

Years ended December 31,	2019 Number of options		2019 Weighted average exercise price	2018 Number of options		2018 Weighted average exercise price
Options outstanding, beginning of period	**3,662,698**	**$**	**14.74**	3,556,575	$	14.03
Granted	**890,836**		**13.38**	885,404		16.20
Exercised[1]	**(595,224)**		**12.52**	(543,223)		12.08
Forfeited	**(371,422)**		**15.67**	(228,058)		15.83
Expired	**(21,367)**		**14.91**	(8,000)		11.66
Options outstanding, end of period	**3,565,521**	**$**	**$14.67**	3,662,698	$	14.74
Options exercisable, end of period	**1,427,608**	**$**	**$14.93**	1,555,909	$	14.13

[1]The weighted average share price of Options at the date of exercise for the year ended December 31, 2019 was $18.32 (December 31, 2018 - $16.50).

The company granted 890,836 stocks options during 2019 (2018 – 885,404). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the period ended December 31, 2019 was $2.87 per options (December 31, 2018 - $3.99).

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

Years ended December 31,	2019	2018
Expected life (years)	**5.28**	5.32
Expected volatility[2]	**33.9%**	32.8%
Dividend yield	**3.2%**	2.4%
Risk-free rate	**1.2%**	2.2%
Estimated forfeiture rate	**4.1%**	2.4%

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

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

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.69 – $13.51	1,106,811	3.82	$	12.39	594,929	2.97	$	12.27
$13.52 – $15.94	1,469,275	4.89		14.64	449,776	2.60		15.04
$15.95 – $20.75	989,435	4.67		17.28	382,903	3.19		18.86
Total	**3,565,521**	**4.50**	**$**	**14.67**	**1,427,608**	**2.91**	**$**	**14.93**

(c) Deferred Share Units

The Company offers a DSU plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their annual bonus, or retainer and fees, respectively, in deferred share units. In addition, the Board may grant discretionary DSUs to executives. A specified component of non-employee directors' compensation must be received in DSUs. A DSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the implied market value calculated as the number of DSUs multiplied by the weighted average price per share on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the grant.

Additional Enerflex DSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

DSUs may be granted to eligible participants on an annual basis and will vest upon being credited to the executive or non-employee director's account. Participants are not able to cash in their DSUs until they are no longer employed by or cease to be directors of Enerflex. The Company satisfies its payment obligation through cash payments to the participant.

DSUs represent an indexed liability of the Company relative to the Company's share price. For the year ended December 31, 2019, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $1.8 million (December 31, 2018 – $1.9 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2019	645,713	$	14.01
Granted	118,708		14.84
In lieu of dividends	17,605		15.56
Vested	(60,206)		16.84
DSUs outstanding, December 31, 2019	**721,820**	**$**	**13.95**

The carrying amount of the liability relating to DSUs as at December 31, 2019 included in current liabilities was $0.1 million (December 31, 2018 – nil) and in other long-term liabilities was $8.7 million (December 31, 2018 – $10.3 million).

(d) Phantom Share Entitlement Plan

The Company utilizes a PSE plan for key employees of affiliates located in Australia and the UAE, for whom the Company's Stock Option Plan would have negative personal taxation consequences.

The exercise price of each PSE equals the average of the market price of the Company's shares on the TSX for the five days preceding the date of the grant. The PSEs vest at a rate of one-fifth on each of the first five anniversaries of the date of the grant and expire on the seventh anniversary. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

In 2019, the Board of Directors granted 50,968 PSEs (December 31, 2018 – 85,013). The intrinsic value of the vested awards at December 31, 2019 was $0.4 million (December 31, 2018 – $0.3 million).

	Number of PSEs		Weighted average grant date fair value per unit
PSEs outstanding, January 1, 2019	295,732	$	15.05
Granted	50,968		13.74
Forfeited	(183,348)		15.43
PSEs outstanding, December 31, 2019	**163,352**	**$**	**14.22**

The carrying amount of the liability relating to the PSEs as at December 31, 2019 included in current liabilities was $0.1 million (December 31, 2018 – $0.3 million) and in other long-term liabilities was less than $0.1 million (December 31, 2018 – $0.3 million).

(e) Performance Share Units

The Company offers a PSU plan for executive officers of the Company. The PSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested PSUs multiplied by the weighted average price per share on the TSX during the last five trading days immediately preceding the grant. Vesting is based on the achievement of performance measures and objectives specified by the Board of Directors. The Board of Directors assesses performance of the officer to determine the vesting percentage, which can range from zero percent to 200 percent. On the 14th day after the determination of the vesting percentage, the holder will be paid for the vested PSUs either in cash or in shares of the Company acquired on the open market on behalf of the holder, at the discretion of the Company.

Additional Enerflex PSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

The Company paid $4.1 million for the period ended December 31, 2019 representing units vested in the year (December 31, 2018 – $2.0 million).

	Number of PSUs		Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2019	506,778	$	15.28
Granted	315,038		13.41
In lieu of dividends	13,228		15.66
Vested	(250,681)		16.55
Forfeited	(79,742)		15.19
PSUs outstanding, December 31, 2019	**504,621**	**$**	**13.50**

The carrying amount of the liability relating to PSUs as at December 31, 2019 included in current liabilities was $0.7 million (December 31, 2018 – $1.5 million) and in other long-term liabilities was $1.2 million (December 31, 2018 – $1.9 million).

(f) Restricted Share Units

The Company offers an RSU plan to officers and other key employees of the Company or its related entities. RSUs may be granted at the discretion of the Board of Directors. An RSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested RSUs multiplied by the weighted average price per share on the TSX during the last five trading days immediately preceding the vesting date. Unless otherwise determined by the Board, RSUs vest at a rate of one-third on the first, second, and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested RSUs either in cash or in shares of the Company acquired by the Company on the open market on behalf of the holder, at the discretion of the Company.

Additional Enerflex RSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

During 2019, the Board of Directors granted 159,740 RSUs to officers or key employees of the Company (2018 – 245,156). The Company paid $2.8 million for the period ended December 31, 2019 representing units vested in the year (December 31, 2018 – $1.8 million).

	Number of RSUs		Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2019	352,962	$	13.51
Granted	159,740		13.74
In lieu of dividends	8,778		15.64
Vested	(169,066)		16.29
Forfeited	(59,843)		15.02
RSUs outstanding, December 31, 2019	**292,571**	**$**	**11.79**

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2019 was $0.9 million (December 31, 2018 – $1.4 million).

(g) Cash Performance Target Plan

The Company offers a CPT plan to certain non-executive, U.S.-based employees of the Company or its related entities. The plan is denominated in U.S. dollars and may be granted at the discretion of the Board of Directors. Although the liability associated with the CPT plan follows Enerflex's share performance, no actual shares or securities are issued under the plan. The cash payment fluctuates based on the percentage of appreciation or depreciation in the share price over the life of the award, which is calculated using the last five days immediately preceding the vesting date. The cash grants are held for three years, and vest at a rate of one-third on the first, second, and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested cash grants, at the discretion of the Company.

During 2019, the Board of Directors distributed $1.9 million of CPT cash grants (2018 – $1.8 million). The Company paid $1.3 million for the period ended December 31, 2019 representing units vested in the year (December 31, 2018 – $1.1 million). The weighted average grant fair value per unit was $13.74 (December 31, 2018 – $16.12), using the average share price over the five days preceding the grant date.

The carrying amount of the liability included in current liabilities relating to CPT plan at December 31, 2019 was $0.5 million (December 31, 2018 – $0.6 million).

(h) Employee Share Purchase Plan

The Company offers an employee share purchase plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to $1,000 per employee per annum based on contributions by the Company of $1 for every $3 contributed by the employee. Company contributions vest to the employee immediately. Company contributions are charged to selling and administrative expense when paid. This plan is administered by a third party.

NOTE 24. RETIREMENT BENEFITS PLAN

The Company sponsors arrangements for substantially all of its employees through defined contribution plans in Canada, UK, Asia, and Australia, and a 401(k) matched savings plan in the United States. In the case of the defined contribution plans, regular contributions are made to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. Both in the case of the defined contribution plans and the 401(k) matched savings plan, the pension expenses recorded in earnings are the amounts of actual contributions the Company is required to make in accordance with the terms of the plans.

Years ended December 31,		2019		2018
Defined contribution plans	$	5,485	$	4,996
401(k) matched savings plan		4,556		3,488
Net pension expense	$	10,041	$	8,484

NOTE 25. FINANCE COSTS AND INCOME

Years ended December 31,		2019		2018
Finance Costs				
Short and long-term borrowings	$	19,679	$	22,598
Interest on lease liability		2,586		-
Total finance costs	$	22,265	$	22,598
Finance Income				
Bank interest income	$	3,596	$	3,334
Income from finance leases		91		119
Total finance income	$	3,687	$	3,453
Net finance costs	$	18,578	$	19,145

NOTE 26. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Year ended December 31, 2019		Net earnings	Weighted average shares outstanding		Per share
Basic	$	152,128	89,500,829	$	1.70
Dilutive effect of stock option conversion		-	208,916		-
Diluted	$	152,128	89,709,745	$	1.70

Year ended December 31, 2018		Net earnings	Weighted average shares outstanding		Per share
Basic	$	101,416	88,709,142	$	1.14
Dilutive effect of stock option conversion		-	379,486		-
Diluted	$	101,416	89,088,628	$	1.14

NOTE 27. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

December 31, 2019		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	96,255	$	96,255
Derivative instruments in designated hedge accounting relationships		152		152
Loans and receivables:				
Accounts receivable		384,021		384,021
Contract assets		183,890		183,890
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		375		375
Other financial liabilities:				
Accounts payable and accrued liabilities		333,605		333,605
Long-term debt – bank facility		121,328		121,328
Long-term debt – notes		312,290		328,037
Other long-term liabilities		14,677		14,677

December 31, 2018		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	326,864	$	326,864
Derivative instruments in designated hedge accounting relationships		1,079		1,079
Loans and receivables:				
Accounts receivable		469,337		469,337
Contract assets		158,027		158,027
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		1,400		1,400
Other financial liabilities:				
Accounts payable and accrued liabilities		306,859		306,859
Long-term debt – bank facility		124,852		124,852
Long-term debt – notes		323,735		317,987
Other long-term liabilities		16,202		16,202

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2019 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements.

Fair values are determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Fair values determined using inputs including forward market rates and credit spreads that are readily observable and reliable, or for which unobservable inputs are determined not to be significant to the fair value, are categorized as Level 2. If there is no active market, fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments. Where this is not feasible, inputs such as liquidity risk, credit risk, and volatility are used.

		Carrying value	Fair Value					
				Level 1		Level 2		Level 3
Financial Assets								
Derivative financial instruments	$	152	$	-	$	152	$	-
Financial Liabilities								
Derivative financial instruments	$	375	$	-	$	375	$	-
Long-term debt – notes	$	312,290	$	-	$	328,037	$	-

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other long-liabilities are reported at amounts approximating their fair values on the statement of financial position. The fair values approximate the carrying values for these instruments due to their short-term nature.

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on prevailing exchange rates. The financial institution's credit risk is also taken into consideration in determining fair value.

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes was determined on a discounted cash flow basis, using a weighted average discount rate of 3.8 percent, was $328.0 million at December 31, 2019.

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at December 31, 2019:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**16,715**	January 2020 – June 2020
Sales contracts	USD	**(10,760)**	January 2020 – May 2020
Purchase contracts	EUR	**136**	January 2020

Management estimates that a loss of $0.2 million would be realized if the contracts were terminated on December 31, 2019. Certain of these forward contracts are designated as cash flow hedges and accordingly, a loss of $0.8 million has been included in other comprehensive income for the 2019 year (December 31, 2018 – $0.3 million). These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings and will offset losses recorded on the underlying hedged items, namely foreign currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedged items for the 2019 year was a gain of $0.9 million (December 31, 2018 – $0.2 million gain).

All hedging relationships are formally documented, including the risk management objective and strategy. On an on-going basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

Risks Arising from Financial Instruments and Risk Management

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

Foreign Currency Translation Exposure

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar, and the Brazilian real. In addition, Enerflex has significant international exposure through export from its Canadian operations, as well as a number of foreign subsidiaries, the most significant of which are located in the United States, Argentina, Brazil, Colombia, Mexico, Bahrain, Oman, the UAE, and Australia.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

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 identifies and hedges all significant transactional currency risks. 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.

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, and Brazilian real.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the reporting dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. 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. The following table shows the effect on net earnings before tax for the 2019 year of a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real, everything else being equal. A five percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

Canadian dollar weakens by 5 percent		USD		AUD		BRL
Earnings before income taxes	$	8,752	$	93	$	106

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable, and derivative financial instruments. The following table shows the Company's sensitivity to a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. A five percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2019 and for the year then ended.

Canadian dollar weakens by 5 percent		USD		AUD		BRL
Financial instruments held in foreign operations						
Other comprehensive income	$	18,551	$	741	$	255
Financial instruments held in Canadian operations						
Earnings before income taxes	$	(9,930)	$	-	$	-

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

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at December 31, 2019 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility however, is subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank Facility, the change in interest expense for the year ended December 31, 2019 would be $1.2 million. All interest charges are recorded on the annual consolidated statements of earnings as finance costs.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, net investment in finance lease, and derivative financial instruments.

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based expected credit losses.

The Company evaluates the concentration of risk at December 31, 2019 with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. At December 31, 2019, the Company had one customer in the USA and Canada segments with balances in accounts receivable and contract assets totaling $68.0 million, representing 12.0 percent of the total balance of accounts receivable and contract assets . The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

The credit risk associated with the net investment in finance leases arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into finance lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly-rated financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facility for future drawings to meet the Company's future growth targets. As at December 31, 2019, the Company held cash and cash equivalents of $96.3 million and had drawn $121.3 million against the Bank Facility, leaving it with access to $557.3 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio of 1:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of greater than 18:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at December 31, 2019:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 319	$ 56	$ -	$ 375
Accounts payable and accrued liabilities	333,605	-	-	333,605
Long-term debt - Bank Facility	-	-	121,328	121,328
Long-term debt - Notes	-	-	312,290	312,290
Other long-term liabilities	-	-	14,677	14,677

The Company expects that cash flows from operations in 2020, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 28. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt. The Company manages its capital to ensure that entities in the Company will be able to continue to grow while maximizing the return to shareholders through the optimization of the debt and equity balances. The Company makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new Company shares, or access debt markets.

The Company formally reviews the capital structure on an annual basis and monitors it on an on-going basis. As part of this review, the cost of capital and the risks associated with each class of capital are considered. In order to position itself to execute its long-term plan to maintain its status as a leading supplier of products and services to the global energy sector, the Company is maintaining a conservative statement of financial position. The Company uses the following measure to monitor its capital structure:

Net Debt to EBITDA Ratio

Net debt to EBITDA is defined as short and long-term debt less cash and cash equivalents at the end of the period, divided by annualized EBITDA. At December 31, 2019, the net debt to EBITDA ratio was:

Years ended December 31,		2019		2018
Long-term debt	$	430,487	$	444,712
Cash and cash equivalents		(96,255)		(326,864)
Net debt	$	334,232	$	117,848
Earnings before finance costs and income taxes	$	233,902	$	151,679
Depreciation and amortization		86,559		89,774
EBITDA	$	320,461	$	241,453
Net debt to EBITDA ratio		1.04:1		0.49:1

The net debt to EBITDA ratio, as defined above is not equivalent to the net debt to EBITDA as defined by the Company's lenders. As at December 31, 2019, the Company is in compliance with its covenants. The net debt to EBITDA using adjusted EBITDA (as defined in the "Adjusted EBITDA" section of the annual Management Discussion and Analysis) is 0.97 at December 31, 2019 (December 31, 2018 – 0.52).

NOTE 29. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,		2019		2018
Net change in non-cash working capital and other				
Accounts receivable	$	85,316	$	(158,618)
Contract assets		(25,863)		(23,032)
Inventories		(93,179)		(4,751)
Deferred revenue		(205,897)		205,627
Accounts payable and accrued liabilities, provisions, and income taxes payable		23,123		(7,383)
Foreign currency and other		(5,249)		26,365
	$	(221,749)	$	38,208

Cash interest and taxes paid and received during the period:

Years ended December 31,		2019		2018
Interest paid – short- and long-term borrowings	$	19,330	$	21,749
Interest paid – lease liabilities		2,586		-
Total interest paid	$	21,916	$	21,749
Interest received		3,518		3,376
Taxes paid		29,855		13,609
Taxes received		421		11,336

Changes in liabilities arising from financing activities during the period:

Years ended December 31,		2019		2018
Long-term debt, opening balance	$	**444,712**	$	460,010
Changes from financing cash flows		**(812)**		(45,610)
The effect of changes in foreign exchange rates		**(14,156)**		29,083
Amortization of deferred transaction costs		**1,523**		2,037
Other changes		**(780)**		(808)
Long-term debt, closing balance	$	**430,487**	$	444,712

NOTE 30. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At December 31, 2019, the Company had outstanding letters of credit of $46.3 million (December 31, 2018 - $78.2 million).

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

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

2020	$	**129,721**
2021		**1,795**
2022		**973**

NOTE 31. 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, the Company's 50 percent controlling interest in Geogas consortium, and the Company's 65 percent interest in a joint venture in Brazil.

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. The Company did not have any transactions with the joint venture in Brazil during the year ended December 31, 2019. A summary of the financial statement impacts of all transactions with all related parties is as follows:

Years ended December 31,		2019		2018
Associate – Roska DBO				
Revenue	$	**509**	$	186
Purchases		**-**		2
Accounts receivable		**4**		-
Joint Operation – Geogas				
Revenue	$	**62**	$	90
Purchases		**74**		75
Accounts receivable		**19**		236

All related party transactions are settled in cash.

The remuneration of directors and other key management personnel was as follows:

Years ended December 31,		2019		2018
Short-term compensation	**$**	**4,747**	$	5,496
Post-employment compensation		**413**		541
Share-based payments		**7,857**		9,808

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

NOTE 32. SEASONALITY

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

NOTE 33. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the year ended December 31, 2019, the Company recognized $262.5 million of revenue from one customer in the USA and Canada segments, which represented 12.8 percent of total consolidated revenue for the period. At December 31, 2019, amounts owing from the customer included in accounts receivable and contract assets was $68.0 million, which represented 12.0 percent of the total balance of accounts receivable and contract assets. For the year ended December 31, 2018, the Company had no individual customer which accounted for more than 10.0 percent of total revenue.

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

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

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

Years ended December 31,	USA 2019	USA 2018	Rest of World 2019	Rest of World 2018	Canada 2019	Canada 2018	Total 2019	Total 2018
Segment revenue	**$ 1,243,760**	$ 1,004,676	**$ 354,680**	$ 425,435	**$ 518,042**	$ 319,223	**$ 2,116,482**	$ 1,749,334
Intersegment revenue	**(48,091)**	(24,137)	**(7,846)**	(2,603)	**(15,123)**	(19,321)	**(71,060)**	(46,061)
Revenue	**$ 1,195,669**	$ 980,539	**$ 346,834**	$ 422,832	**$ 502,919**	$ 299,902	**$ 2,045,422**	$ 1,703,273
Revenue – Engineered Systems	**947,451**	783,114	**76,813**	169,410	**424,239**	229,646	**1,448,503**	1,182,170
Revenue – Service	**172,130**	145,358	**154,951**	139,015	**67,505**	60,725	**394,586**	345,098
Revenue – Rentals	**76,088**	52,067	**115,070**	114,407	**11,175**	9,531	**202,333**	176,005
Operating income	**$ 194,010**	$ 85,224	**$ 511**	$ 50,005	**$ 37,387**	$ 9,735	**$ 231,908**	$ 144,964

As at	USA Dec. 31, 2019	USA Dec. 31, 2018	Rest of World Dec. 31, 2019	Rest of World Dec. 31, 2018	Canada Dec. 31, 2019	Canada Dec. 31, 2018	Total Dec. 31, 2019	Total Dec. 31, 2018
Segment assets	**$ 1,001,935**	$ 990,819	**$ 601,512**	$ 676,676	**$ 552,457**	$ 490,135	**$ 2,155,904**	$ 2,157,630
Goodwill	**158,214**	166,179	**327,347**	344,285	**88,367**	88,367	**573,928**	598,831
Corporate	**-**	-	**-**	-	**-**	-	**(295,326)**	(273,602)
Total segment assets	**$ 1,160,149**	$ 1,156,998	**$ 928,859**	$ 1,020,961	**$ 640,824**	$ 578,502	**$ 2,434,506**	$ 2,482,859

NOTE 34. RECONCILIATION OF TRANSITIONAL ADJUSTMENTS

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	Notes	As at December 31, 2019 Per IAS 17	Effect of Transition	Per IFRS 16
Assets				
Current assets				
Cash and cash equivalents		$ 96,255	$ -	$ 96,255
Accounts receivable		384,021	-	384,021
Contract assets		183,890	-	183,890
Inventories		269,385	-	269,385
Income taxes receivable		6,626	-	6,626
Derivative financial instruments		152	-	152
Other current assets		12,223	-	12,223
Total current assets		952,552	-	952,552
Property, plant and equipment		108,551	-	108,551
Rental equipment		642,095	-	642,095
Lease right-of-use assets	i	-	60,288	60,288
Deferred tax assets	i	47,869	755	48,624
Other assets		26,410	-	26,410
Intangible assets		22,058	-	22,058
Goodwill		573,928	-	573,928
Total assets		$ 2,373,463	$ 61,043	$ 2,434,506
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities		$ 333,605	$ -	$ 333,605
Provisions		18,250	-	18,250
Income taxes payable	i	8,073	1	8,074
Deferred revenues		142,907	-	142,907
Current portion of lease liabilities	i	-	14,172	14,172
Deferred finance income		88	-	88
Derivative financial instruments		375	-	375
Total current liabilities		503,298	14,173	517,471
Long-term debt		430,487	-	430,487
Lease liabilities	i	-	52,828	52,828
Deferred tax liabilities		76,256	-	76,256
Other liabilities	i	18,011	(3,334)	14,677
Total liabilities		$ 1,028,052	$ 63,667	$ 1,091,719
Shareholders' equity				
Share capital		$ 375,524	$ -	$ 375,524
Contributed surplus		655,107	-	655,107
Retained earnings	i	231,467	(2,624)	228,843
Accumulated other comprehensive income		81,779	-	81,779
Total shareholders' equity before non-controlling interest		1,343,877	(2,624)	1,341,253
Non-controlling interest		1,534	-	1,534
Total shareholders' equity and non-controlling interest		1,345,411	(2,624)	1,342,787
Total liabilities and shareholders' equity		$ 2,373,463	$ 61,043	$ 2,434,506

CONSOLIDATED STATEMENTS OF EARNINGS

		Year ended December 31, 2019		
($ Canadian thousands, except per share amounts)	Notes	Per IAS 17	Effect of Transition	Per IFRS 16
Revenue		$ 2,045,422	$ -	$ 2,045,422
Cost of goods sold	i	1,617,410	(1,073)	1,616,337
Gross margin		428,012	1,073	429,085
Selling and administrative expenses	i	198,582	(1,405)	197,177
Operating income		229,430	2,478	231,908
Gain on disposal of property, plant and equipment		302	-	302
Equity earnings from associate and joint venture		1,692	-	1,692
Earnings before finance costs and income taxes		231,424	2,478	233,902
Net finance costs	i	15,992	2,586	18,578
Earnings before income taxes		215,432	(108)	215,324
Income taxes	i	63,084	112	63,196
Net earnings		$ 152,348	$ (220)	$ 152,128
Net earnings attributable to:				
Controlling interest		$ 151,867	(220)	$ 151,647
Non-controlling interest		481	-	481
		$ 152,348	(220)	$ 152,128
Earnings per share – basic		$ 1.70		$ 1.70
Earnings per share – diluted		$ 1.70		$ 1.70
Weighted average number of shares – basic		89,500,829		89,500,829
Weighted average number of shares – diluted		89,709,745		89,709,745

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Year ended December 31, 2019		
($ Canadian thousands)	Notes	Per IAS 17	Effect of Transition	Per IFRS 16
Net earnings		$ 152,348	$ (220)	$ 152,128
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:				
Change in fair value of derivatives designated as cash flow hedges, net of income tax		(815)	-	(815)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax		905	-	905
Unrealized gain (loss) on translation of foreign denominated debt		3,845	-	3,845
Unrealized (loss) gain on translation of financial statements of foreign operations		(65,044)	-	(65,044)
Other comprehensive income (loss)		$ (61,109)	$ -	$ (61,109)
Total comprehensive income		$ 91,239	$ (220)	$ 91,019
Other comprehensive income (loss) attributable to:				
Controlling interest		$ (60,713)	-	$ (60,713)
Non-controlling interest		(396)	-	(396)
		$ (61,109)	-	$ (61,109)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31, 2019		
($ Canadian thousands)	Notes	Per IAS 17	Effect of Transition	Per IFRS 16
Operating Activities				
Net earnings		$ 152,348	$ (220)	$ 152,128
Items not requiring cash and cash equivalents:				
Depreciation and amortization	i	73,904	12,655	86,559
Equity earnings loss from associate and joint venture		(1,692)	-	(1,692)
Deferred income taxes		31,476	-	31,476
Share-based compensation expense (recovery)		7,749	-	7,749
Gain on sale of property, plant and equipment		(302)	-	(302)
		263,483	12,435	275,918
Net change in non-cash working capital and other	i	(224,451)	2,702	(221,749)
Cash provided by operating activities		$ 39,032	$ 15,137	$ 54,169
Investing Activities				
Additions to:				
Property, plant and equipment		$ (46,322)	$ -	$ (46,322)
Rental equipment		(217,068)	-	(217,068)
Proceeds on disposal of:				
Property, plant and equipment		9,205	-	9,205
Rental equipment		4,454	-	4,454
Change in other assets		26,911	-	26,911
Cash used in investing activities		$ (222,820)	$ -	$ (222,820)
Financing Activities				
Repayment of long-term debt		$ (15,748)	$ -	$ (15,748)
Lease liability principal repayment	i	-	(12,551)	(12,551)
Lease interest incurred	i	-	(2,586)	(2,586)
Dividends		(37,548)	-	(37,548)
Stock option exercises		7,453	-	7,453
Cash used in financing activities		$ (45,843)	$ (15,137)	$ (60,980)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies		$ (978)	$ -	$ (978)
Increase (decrease) in cash and cash equivalents		(230,609)	-	(230,609)
Cash and cash equivalents, beginning of period		326,864	-	326,864
Cash and cash equivalents, end of period		$ 96,255	$ -	$ 96,255

NOTES TO THE RECONCILIATIONS

i. Leases

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

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

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

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

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

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

NOTE 35. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, Enerflex declared a quarterly dividend of $0.115 per share, payable on April 2, 2020, to shareholders of record on March 12, 2020.

DIRECTORS AND EXECUTIVES

BOARD OF DIRECTORS

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

MAUREEN CORMIER JACKSON [6]
Director
Calgary, AB

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

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

KEVIN J. REINHART [5]
Director
Calgary, AB

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

STEPHEN J. SAVIDANT [7]
Chairman
Calgary, AB

JUAN CARLOS VILLEGAS [4]
Director
Vitacura, Chile

MICHAEL A. WEILL [6]
Director
Houston, TX

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

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

EXECUTIVES

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

ANDREW JACK
President, Canada
Calgary, AB

PATRICIA MARTINEZ
President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

DAVID IZETT
Senior Vice President,
General Counsel
Calgary, AB

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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

For shareholder enquiries:
AST Trust Company (Canada)
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Montreal, QC, H3A 2A6, Canada

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Station B
Montreal, QC, H3B 3K3, Canada

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

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

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

INVESTOR RELATIONS

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

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

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

ANNUAL GENERAL MEETING INFORMATION

Shareholders of Enerflex are invited to attend the Annual General and Special Meeting which will be held on May 8, 2020, at 10:30 a.m. MDT. The meeting will be held at the Sheraton Suites Eau Claire, 225 Barclay Parade SW. Those unable to attend are encouraged to sign and return the proxy form mailed to them.

ENERFLEX

2019 **QUARTERLY REPORT**

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