INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		**June 30, 2016**		December 31, 2015
Assets				
Current assets				
Cash and cash equivalents	**$**	**162,716**	$	158,081
Accounts receivable		**241,325**		330,270
Inventories (Note 3)		**194,079**		200,099
Income taxes receivable		**5,550**		7,937
Derivative financial instruments (Note 10)		**352**		1,131
Other current assets		**7,064**		10,547
Total current assets		**611,086**		708,065
Property, plant and equipment (Note 4)		**118,472**		144,979
Rental equipment (Note 4)		**417,788**		449,249
Deferred tax assets		**51,254**		41,714
Other assets		**52,403**		58,177
Intangible assets		**40,618**		44,301
Goodwill (Note 5)		**629,044**		748,604
		1,920,665		2,195,089
Assets held for sale (Note 2)		**14,057**		14,175
Total assets	**$**	**1,934,722**	$	2,209,264
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**188,772**	$	245,459
Provisions (Note 6)		**21,026**		25,228
Income taxes payable		**2,665**		3,259
Deferred revenues		**103,326**		143,509
Current portion of long-term debt (Note 7)		**-**		50,500
Derivative financial instruments (Note 10)		**615**		922
Total current liabilities		**316,404**		468,877
Long-term debt (Note 7)		**539,700**		528,140
Decommissioning liability		**8,375**		8,548
Deferred revenues		**372**		443
Deferred tax liabilities		**35,308**		36,833
Other liabilities		**8,503**		8,078
		908,662		1,050,919
Liabilities related to assets held for sale (Note 2)		**348**		305
Total liabilities	**$**	**909,010**	$	1,051,224
Shareholders' equity				
Share capital	**$**	**239,153**	$	238,580
Contributed surplus		**653,564**		653,120
Retained earnings		**24,846**		115,397
Accumulated other comprehensive income		**105,712**		146,969
Total shareholders' equity before non-controlling interest		**1,023,275**		1,154,066
Non-controlling interest		**2,437**		3,974
Total shareholders' equity and non-controlling interest		**1,025,712**		1,158,040
Total liabilities and shareholders' equity	**$**	**1,934,722**	$	2,209,264

See accompanying Notes to the Interim Condensed Financial Statements, including guarantees, commitments and contingencies (Note 13).

INTERIM CONDENSED STATEMENTS OF EARNINGS (LOSS) *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended June 30,				Six months ended June 30,			
		2016		2015		**2016**		2015
Revenue (Note 12)	**$**	**253,068**	$	389,721	**$**	**524,770**	$	845,242
Cost of goods sold		**188,834**		308,225		**414,154**		680,214
Gross margin		**64,234**		81,496		**110,616**		165,028
Selling and administrative expenses		**42,411**		44,516		**90,092**		94,422
Operating income		**21,823**		36,980		**20,524**		70,606
Gain (loss) on disposal of property, plant and equipment		**7**		(47)		**14**		1,457
Equity earnings from associate and joint venture		**36**		1,265		**2,290**		3,120
Impairment of goodwill		**-**		-		**(92,092)**		-
Earnings (loss) before finance costs and income taxes		**21,866**		38,198		**(69,264)**		75,183
Net finance costs		**3,676**		3,547		**7,858**		7,159
Earnings (loss) before income taxes		**18,190**		34,651		**(77,122)**		68,024
Income taxes (Note 8)		**1,349**		7,824		**(486)**		17,649
Net earnings (loss) from continuing operations	**$**	**16,841**	$	26,827	**$**	**(76,636)**	$	50,375
Loss from discontinued operations (Note 2)		**(82)**		(145)		**(170)**		(835)
Net earnings (loss)	**$**	**16,759**	$	26,682	**$**	**(76,806)**	$	49,540
Net earnings (loss) attributable to:								
Controlling interest	**$**	**16,182**	$	26,252	**$**	**(77,088)**	$	47,466
Non-controlling interest		**577**		430		**282**		2,074
	$	**16,759**	$	26,682	**$**	**(76,806)**	$	49,540
Earnings (loss) per share – basic								
Continuing operations	**$**	**0.21**	$	0.34	**$**	**(0.97)**	$	0.64
Discontinued operations	**$**	**(0.00)**	$	(0.00)	**$**	**(0.00)**	$	(0.01)
Earnings (loss) per share – diluted								
Continuing operations	**$**	**0.21**	$	0.34	**$**	**(0.97)**	$	0.64
Discontinued operations	**$**	**(0.00)**	$	(0.00)	**$**	**(0.00)**	$	(0.01)
Weighted average number of shares – basic		**79,196,942**		78,945,870		**79,187,508**		78,837,708
Weighted average number of shares – diluted		**79,196,942**		79,185,857		**79,189,198**		79,126,682

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)		Three months ended June 30, **2016**		2015		Six months ended June 30, **2016**		2015
Net earnings (loss)	**$**	**16,759**	$	26,682	**$**	**(76,806)**	$	49,540
Other comprehensive (loss) income:								
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:								
Change in fair value of derivatives designated as cash flow hedges, net of income tax expense (recovery) (2016: $38; 2015: $(325))		**148**		849		**(71)**		(1,145)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense (2016: $375; 2015: $464)		**178**		1,497		**1,194**		1,680
Unrealized gain (loss) on translation of foreign denominated debt		**(2,537)**		4,604		**18,859**		(25,214)
Unrealized (loss) gain on translation of financial statements of foreign operations		**1,961**		(10,971)		**(63,058)**		61,027
Other comprehensive (loss) income	**$**	**(250)**	$	(4,021)	**$**	**(43,076)**	$	36,348
Total comprehensive income (loss)	**$**	**16,509**	$	22,661	**$**	**(119,882)**	$	85,888
Other comprehensive (loss) income attributable to:								
Controlling interest	**$**	**(23)**	$	(2,974)	**$**	**(41,257)**	$	38,215
Non-controlling interest		**(227)**		(1,047)		**(1,819)**		(1,867)
	$	**(250)**	$	(4,021)	**$**	**(43,076)**	$	36,348

INTERIM CONDENSED STATEMENTS OF CASH FLOWS *(unaudited)*

($ Canadian thousands)	Three months ended June 30, **2016**	2015	Six months ended June 30, **2016**	2015
Operating Activities				
Net earnings (loss)	**$ 16,759**	$ 26,682	**$ (76,806)**	$ 49,540
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**22,989**	17,039	**45,605**	35,544
Goodwill impairment	**-**	-	**92,092**	-
Equity earnings from associate and joint venture	**(36)**	(1,265)	**(2,290)**	(3,120)
Deferred income taxes (Note 2, 8)	**(2,423)**	(1,356)	**(9,023)**	(1,418)
Share-based compensation expense (recovery) (Note 9)	**1,817**	(200)	**1,093**	623
(Gain) loss on sale of property, plant and equipment	**(8)**	194	**(31)**	(1,312)
	39,098	41,094	**50,640**	79,857
Net change in non-cash working capital and other (Note 11)	**(21,138)**	(17,021)	**17,687**	(33,817)
Cash provided by operating activities	**$ 17,960**	$ 24,073	**$ 68,327**	$ 46,040
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**(923)**	(1,065)	**(2,232)**	(8,548)
Rental equipment (Note 4)	**(6,253)**	(33,599)	**(15,805)**	(104,837)
Proceeds on disposal of:				
Property, plant and equipment	**34**	-	**208**	2,847
Rental equipment	**68**	4,898	**605**	9,547
Change in other assets	**(754)**	(6,858)	**8,835**	(3,159)
Cash used in investing activities	**$ (7,828)**	$ (36,624)	**$ (8,389)**	$ (104,150)
Financing Activities				
(Repayment) proceeds from issuance of long-term debt	**$ (526)**	$ 14,350	**$ (39,749)**	$ 16,371
Dividends	**(6,732)**	(6,690)	**(13,458)**	(13,370)
Stock option exercises	**-**	3,930	**389**	5,302
Cash (used in) provided by financing activities	**$ (7,258)**	$ 11,590	**$ (52,818)**	$ 8,303
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ (413)**	$ (780)	**$ (2,485)**	$ 1,856
Increase (decrease) in cash and cash equivalents	**2,461**	(1,741)	**4,635**	(47,951)
Cash and cash equivalents, beginning of period	**160,255**	111,859	**158,081**	158,069
Cash and cash equivalents, end of period	**$ 162,716**	$ 110,118	**$ 162,716**	$ 110,118

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2015	$ 229,534	$ 653,624	$ 96,503	$ 38,765	$ (1,946)	$ 36,819	$ 1,016,480	$ 3,502	$ 1,019,982
Net earnings	-	-	47,466	-	-	-	47,466	2,074	49,540
Other comprehensive income (loss)	-	-	-	37,680	535	38,215	38,215	(1,867)	36,348
Effect of stock option plans	7,404	(927)	-	-	-	-	6,477	-	6,477
Dividends	-	-	(13,407)	-	-	-	(13,407)	-	(13,407)
At June 30, 2015	**$ 236,938**	**$ 652,697**	**$ 130,562**	**$ 76,445**	**$ (1,411)**	**$ 75,034**	**$ 1,095,231**	**$ 3,709**	**$ 1,098,940**
At January 1, 2016	$ 238,580	$ 653,120	$ 115,397	$ 149,124	$ (2,155)	$ 146,969	$ 1,154,066	$ 3,974	$ 1,158,040
Net (loss) earnings	-	-	(77,088)	-	-	-	(77,088)	282	(76,806)
Other comprehensive (loss) income	-	-	-	(42,380)	1,123	(41,257)	(41,257)	(1,819)	(43,076)
Effect of stock option plans	573	$ 444	-	-	-	-	1,017	-	1,017
Dividends	-	-	(13,463)	-	-	-	(13,463)	-	(13,463)
At June 30, 2016	**$ 239,153**	**$ 653,564**	**$ 24,846**	**$ 106,744**	**$ (1,032)**	**$ 105,712**	**$ 1,023,275**	**$ 2,437**	**$ 1,025,712**

See accompanying Notes to the Interim Condensed Financial Statements.

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

Note 1. Summary of Significant Accounting Policies

(a) Statement of Compliance

These Interim Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These Interim Condensed Financial Statements were approved and authorized for issue by the Board of Directors on August 4, 2016.

(b) Basis of Presentation and Measurement

These Interim Condensed Financial Statements for the three and six months ended June 30, 2016 and 2015 were prepared in accordance with IAS 34 and accordingly, do not include all the disclosures included in the Company's Annual Consolidated Financial Statements for the year ended December 31, 2015. Accordingly, these Interim Condensed Financial Statements should be read in conjunction with the Annual Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

Effective January 1, 2015, the Company realigned its reporting segments into the following categories: Canada, United States of America ("USA") and Rest of World segments. The USA segment now includes the Northern United States Service business, as well as the Retrofit and Rentals operations based out of Casper, Wyoming both of which were previously reported in the Canada and Northern United States segment. The Rest of World segment includes what was previously the Latin American Engineered Systems, After-Market Service and Rental businesses combined with what was previously the International segment. The Company reallocated goodwill using the relative fair value approach for the revised reportable segments.

These Interim Condensed Financial Statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the Annual Consolidated Financial Statements for the year ended December 31, 2015, other than those identified below under New Policies, Standards, Interpretations and Amendments.

(c) New Policies, Standards, Interpretations and Amendments

The Company continues to assess the impact of adopting the following pronouncements from the IASB:

IFRS 9 *Financial Instruments* sets out the requirements for the classification and measurement of financial assets and liabilities and a substantially-reformed approach to hedge accounting. The new Standard will come into effect on January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers* specifies how and when to recognize revenue, and introduces more informative relevant disclosures. The standard supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts*, and a number of revenue-related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted.

IFRS 16 *Leases* sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15.

The Company has commenced its assessment of the impact of the new standards but has not yet determined the impact of these standards on the Company's interim condensed financial statements.

Note 2. Assets Held for Sale and Discontinued Operations

On February 3, 2015, the Company announced its intention to close the Production and Processing ("P&P") manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business. The business unit completed the fabrication of projects at the end of June 2015.

The following table summarizes the revenues and loss from discontinued operations:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Revenues	**$ -**	$ 12,694	**$ -**	$ 32,496
Expenses	**113**	12,890	**233**	33,625
Loss before income taxes	**(113)**	(196)	**(233)**	(1,129)
Income tax recoveries	**(31)**	(51)	**(63)**	(294)
Loss from discontinued operations	**$ (82)**	$ (145)	**$ (170)**	$ (835)

The following table summarizes cash from discontinued operations:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Cash used in operating activities	**$ -**	$ (4,712)	**$ (215)**	$ (12,635)
Cash provided by investing activities	**$ -**	$ 990	**$ 215**	$ 869
Net cash flow for the period	**$ -**	$ (3,722)	**$ -**	$ (11,766)

At June 30, 2016 P&P's assets were stated at the lower of cost and fair value less costs to sell and were comprised of the following:

	June 30, 2016	December 31, 2015
Property, plant and equipment	**$ 13,958**	$ 14,156
Other current assets	**99**	19
Assets held for sale	**$ 14,057**	$ 14,175
Accounts payable and accrued liabilities	**$ 348**	$ 305
Liabilities related to assets held for sale	**$ 348**	$ 305

Subsequent to the quarter, Enerflex sold two of the three properties classified as assets held for sale for proceeds of $4.5 million and a net gain of $0.8 million. The assets continue to be classified as held for sale as management remains committed to its plan to sell the remaining assets.

Note 3. Inventories

Inventories consisted of the following:

		June 30, 2016		December 31, 2015
Equipment	$	**15,836**	$	16,650
Repair and distribution parts		**51,598**		58,886
Direct materials		**58,583**		67,174
Work-in-process		**68,062**		57,389
Total inventories	$	**194,079**	$	200,099

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three and six months ended June 30, 2016 was $188.8 million and $414.2 million, respectively (June 30, 2015 - $308.2 million and $680.2 million, respectively). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the interim condensed statement of earnings and included in cost of goods sold for the three and six months ended June 30, 2016 was $1.6 million and $4.6 million, respectively (June 30, 2015 – $0.4 million and $1.0 million, respectively).

Note 4. Property, Plant and Equipment and Rental Equipment

During the three and six months ended June 30, 2016, the Company acquired $0.9 million and $2.2 million in property, plant and equipment, respectively (June 30, 2015 - $1.1 million and $8.5 million) and $6.3 million and $15.8 million in rental equipment (June 30, 2015 - $33.6 million and $104.8 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended June 30, 2016 was $19.3 million (June 30, 2015 - $13.4 million), of which $17.9 million was included in cost of goods sold and $1.4 million was included in selling and administrative expenses (June 30, 2015 - $11.8 million and $1.6 million, respectively).

Depreciation of property, plant and equipment and rental equipment included in earnings for the six months ended June 30, 2016 was $39.6 million (June 30, 2015 - $28.0 million), of which $36.7 million was included in cost of goods sold and $2.9 million was included in selling and administrative expenses (June 30, 2015 - $24.9 million and $3.1 million, respectively).

Impairment of property, plant and equipment and rental equipment included in earnings for the three months end June 30, 2016 was $0.2 million (June 30, 2015 – nil). Impairment of property, plant and equipment and rental equipment included in earnings for the six months end June 30, 2016 was $0.3 million (June 30, 2015 – nil).

Note 5. Goodwill and Impairment Review of Goodwill

		June 30, 2016		December 31, 2015
Balance, January 1	$	**748,604**	$	707,913
Adjustment		**-**		4,363
Impairment		**(92,092)**		(36,900)
Currency translation effects		**(27,468)**		73,228
Closing balance	$	**629,044**	$	748,604

Goodwill acquired through business combinations was allocated to the Canada, USA and Rest of World business segments, and represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. During the quarter, the Company did not identify any additional external indicators of impairment, and therefore did not complete an impairment assessment. During the first quarter of 2016, Enerflex recognized a goodwill impairment of $92.1 million for the Canada segment.

Note 6. Provisions

		June 30, 2016		December 31, 2015
Warranty provision	**$**	**16,654**	$	20,208
Restructuring provision		**783**		2,623
Legal provision		**93**		50
Onerous lease provision		**3,496**		2,347
	$	**21,026**	$	25,228

During the first quarter of 2016, the Company committed to, and started to implement, a plan to restructure the Canadian business segment due to deteriorating economic circumstances. The Company recognized a restructuring provision of $3.1 million for expected severance costs. The Company's restructuring provision also includes remaining severance amounts related to the restructuring of the Process Construction business in Australia, accrued at December 31, 2015. The balance of the provision as of June 30, 2016 is $0.2 million for Canada and $0.6 million for Australia.

The Company previously entered into non-cancellable leases for several office spaces in Alberta, Canada and for one office space in Ontario, Canada. Due to the restructuring of the Gas Drive Service business, the Company ceased using these premises in March 2016. The majority of the leases will expire in 2017. Additionally, an office space that was leased in Edmonton, Alberta will expire in 2021. The Company intends to sub-let this space but at a discount to the lease payments. The resulting provision of $2.3 million represents the future payments for all non-cancellable leases and associated costs, net of anticipated sub-lease recoveries. During the quarter, $0.4 million of the provision was reversed due an office sublet. The provision also includes amounts related to onerous leases previously accrued for the restructuring of the Process Construction business in Australia.

Note 7. Long-Term Debt

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

		June 30, 2016		December 31, 2015
Drawings on Bank Facility	**$**	**504,098**	$	492,953
Notes due June 22, 2016		**-**		50,500
Notes due June 22, 2021		**40,000**		40,000
Deferred transaction costs		**(4,398)**		(4,813)
Subtotal	**$**	**539,700**	$	578,640
Less: current portion of long-term debt		**-**		50,500
	$	**539,700**	$	528,140

The weighted average interest rate on the Bank Facility for the six months ended June 30, 2016 was 2.4% (December 31, 2015 – 2.3%). At June 30, 2016, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $544.1 million.

During the second quarter of 2016, the Company repaid $50.5 million of senior notes that were due June 22, 2016. The repayment was financed by drawings on the Bank Facility.

Note 8. Income Taxes

(a) Income Tax Recognized in Net Earnings

The components of income tax expense (recovery) were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Current income taxes	**$ 3,741**	$ 9,129	**$ 8,474**	$ 18,773
Deferred income taxes	**(2,392)**	(1,305)	**(8,960)**	(1,124)
	$ 1,349	$ 7,824	**$ (486)**	$ 17,649

(b) Reconciliation of Tax Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Earnings before income taxes from continuing operations	**$ 18,190**	$ 34,651	**$ (77,122)**	$ 68,024
Canadian statutory rate	**27.0%**	26.0%	**27.0%**	26.0%
Expected income tax provision	**$ 4,911**	$ 9,009	**$ (20,823)**	$ 17,686
Add (deduct):				
Impairment of goodwill not deductible for tax purposes	**-**	-	**24,865**	-
Exchange rate effects on tax basis	**20**	-	**4,444**	-
Earnings taxed in foreign jurisdictions	**(3,877)**	(32)	**(8,790)**	2,081
Expenses not deductible for tax purposes	**128**	164	**210**	360
Impact of accounting for associates and joint ventures	**(166)**	(472)	**(694)**	(1,346)
Revaluation of Canadian deferred tax assets at new statutory rate	**-**	(1,069)	**-**	(1,069)
Other	**333**	224	**302**	(63)
Income tax expense (recovery) from continuing operations	**$ 1,349**	$ 7,824	**$ (486)**	$ 17,649

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 liability or benefit in the future.

The Canadian statutory rate is the aggregate of the Canadian federal income tax rate of 15.0% (2015 - 15.0%) and the provincial income tax rate of 12.0% (2015 - 11.0%).

Note 9. Share-Based Compensation

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Equity settled share-based payments	**$ 424**	$ 493	**$ 628**	$ 1,175
Cash settled share-based payments	**1,393**	(693)	**465**	(552)
Share-based compensation expense (recovery)	**$ 1,817**	$ (200)	**$ 1,093**	$ 623

Deferred share units ("DSUs"), phantom share rights ("SARs"), performance share units ("PSUs"), restricted share units ("RSUs") and cash performance target plan ("CPTP") are all classified as cash settled share-based payments. Stock options are equity settled share-based payments.

The Company did not grant any PSUs, DSUs, RSUs, SARs or CPTP to its employees during the first six months of 2016. The RSU, PSU and DSU holders had dividends credited to their account during the period. The carrying amount of the liability relating to all cash settled share-based payments as at June 30, 2016 included in Current Liabilities was $3.2 million (December 31, 2015 - $2.5 million) and in Other Long-Term Liabilities was $6.3 million (December 31, 2015 - $6.1 million).

(a) Equity Settled Share-Based Payments

	June 30, 2016		December 31, 2015	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**2,776,268**	**$ 13.47**	2,550,224	$ 13.71
Granted	**-**	**-**	781,092	11.69
Exercised [1]	**(40,450)**	**9.61**	(538,466)	12.00
Forfeited	**(24,900)**	**12.09**	(15,082)	14.69
Expired	**(134,886)**	**14.61**	(1,500)	12.58
Options outstanding, end of period	**2,576,032**	**$ 13.48**	2,776,268	$ 13.47
Options exercisable, end of period	**1,063,340**	**$ 13.03**	1,156,525	$ 12.92

[1]The weighted average share price of options at the date of exercise for the six months ended June 30, 2016 was $11.86 (June 30, 2015 - $14.94)

The following table summarizes options outstanding and exercisable at June 30, 2016:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.04 - $11.76	1,219,752	4.79	$	11.67	346,094	2.45	$	11.63
$11.77 - $13.65	617,967	1.94		12.36	492,924	1.64		12.49
$13.66 - $20.75	738,313	4.58		17.42	224,322	4.42		16.36
Total	**2,576,032**	**4.05**	**$**	**13.48**	**1,063,340**	**2.49**	**$**	**13.03**

b) Cash Settled Share-Based Payments

During the three and six months ended June 30, 2016, directors' fees and executive bonuses elected to be received in DSUs totalled $0.2 million and $1.0 million, respectively (June 30, 2015 - $0.2 million and $1.3 million, respectively).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2016	396,436	$	14.00
Granted	92,095		10.48
In lieu of dividends	6,199		11.36
DSUs outstanding, June 30, 2016	**494,730**	**$**	**13.31**

Note 10. Financial Instruments

Designation and Valuation of Financial Instruments

Financial instruments at June 30, 2016 were designated in the same manner as they were at December 31, 2015. Accordingly, with the exception of the Company's long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at June 30, 2016 was $40.0 million and $43.3 million, respectively (December 31, 2015 - $90.5 million and $93.2 million, respectively). The fair value of these Notes at June 30, 2016 was determined on a discounted cash flow basis with a weighted average discount rate of 4.2% (December 31, 2015 – 4.1%).

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at June 30, 2016:

		Notional amount	Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	**6,848**	July 2016 – January 2017
Sales contracts	USD	**(8,879)**	July 2016 – June 2017
U.S. dollar denominated contracts			
Purchase contracts	EUR	**508**	July 2016
Sales contracts	EUR	**(2,540)**	July 2016 – October 2016

At June 30, 2016, the fair value of derivative financial instruments classified as financial assets was $0.4 million, and as financial liabilities was $0.6 million (December 31, 2015 - $1.1 million and $0.9 million, respectively).

Foreign Currency Translation Exposure
The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar and British pound. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of USD $230.6 million in designated foreign currency borrowings are included in accumulated other comprehensive income for June 30, 2016. The following table shows the Company's sensitivity to a 5% weakening of the Canadian dollar against the US dollar, Australian dollar and British pound.

Canadian dollar weakens by 5%	USD	AUD	GBP
Earnings from foreign operations			
Earnings before income taxes	**$ 1,674**	**$ (490)**	**$ 29**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 8,507**	**$ 1,410**	**$ 242**
Financial instruments held in Canadian operations			
Earnings before income taxes	**$ (3,787)**	**$ -**	**$ -**

Interest Rate Risk
The Company's liabilities include long-term debt subject to fluctuations in interest rates. The Company's Notes outstanding at June 30, 2016 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates.

The Company has entered into an interest rate swap to exchange the floating rate interest payments for fixed rate interest payments, which fix the London Interbank Offered Rates components of its interest payments on $140.0 million of its outstanding term debt until September 2016, and $70.0 million of its outstanding term debt until September 2017.

Under the interest rate swap agreement, the Company pays a fixed rate of 0.785% per annum plus the applicable credit spread. The interest rate swap agreement has an aggregate notional principal amount of $140.0 million. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As at June 30, 2016, the mark-to-market of the interest rate swap was $0.4 million.

For each 1% change in the rate of interest on the remaining $322.0 million Bank Facilities, the change in interest expense for the six months ended would be $3.2 million (December 31, 2015 – $3.0 million). All interest charges are recorded on the Interim Condensed Statement of Earnings as net finance costs.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its committed facility with a U.S. lender, and a Bank Facility for future drawings to meet the Company's future growth targets. As at June 30, 2016, the Company held cash and cash equivalents of $162.7 million and had drawn $504.1 million against the Bank Facility, leaving it with access to $209.1 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows associated with the maturity of the Company's financial liabilities as at June 30, 2016:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 218	$ 9	$ -	$ 227
Interest rate swap	388	-	-	388
Accounts payable and accrued liabilities	188,772	-	-	188,772
Long-term debt - bank facility	-	-	504,098	504,098
Long-term debt - notes	-	-	40,000	40,000
Other long-term liabilities	-	-	8,503	8,503

The Company expects that continued cash flows from operations in 2016, 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 11. Supplemental Cash Flow Information

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Cash (used in) provided by changes of non-cash working capital				
Accounts receivable	**$ 35,419**	$ 30,354	**$ 88,945**	$ 100,740
Inventories	**4,962**	(6,163)	**6,020**	10,467
Deferred revenue	**(28,371)**	(48,848)	**(40,254)**	(77,619)
Accounts and taxes payable and accrued liabilities and provisions	**(38,195)**	(4,643)	**(61,440)**	(46,041)
Foreign currency and other	**5,047**	12,279	**24,416**	(21,364)
	$ (21,138)	$ (17,021)	**$ 17,687**	$ (33,817)

Cash paid during the period:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
Interest	**$ 4,827**	$ 4,625	**$ 7,081**	$ 6,332
Taxes	**7,487**	14,478	**8,952**	19,393

Note 12. Revenue

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	**2016**	2015
USA	**$ 76,647**	$ 112,981	**$ 173,204**	$ 305,236
Canada	**50,559**	118,652	**103,202**	262,893
Mexico	**20,589**	20,432	**44,283**	41,479
Australia	**25,805**	39,446	**40,667**	84,867
Oman	**20,816**	21,503	**40,088**	27,639
Argentina	**16,405**	22,803	**33,357**	26,739
Bahrain	**10,945**	8,564	**23,643**	13,351
United Arab Emirate	**8,349**	1,283	**10,422**	2,082
Nigeria	**2,279**	7,255	**7,550**	16,678
Indonesia	**3,191**	2,293	**7,178**	2,911
Brazil	**3,013**	7,104	**6,813**	14,577
Other	**14,470**	27,405	**34,363**	46,790
Total Revenue	**$ 253,068**	$ 389,721	**$ 524,770**	$ 845,242

Note 13. Guarantees, Commitments and Contingencies

Operating leases relate to leases of equipment, automobiles and premises with lease terms between one and ten years. The material lease arrangements generally include renewal and escalation clauses.

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

2016	$ 10,024
2017	16,245
2018	12,458
2019	9,404
2020	6,005
Thereafter	8,906
Total	$ 63,042

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

2016	$ 103,162
2017	1,485
2018	-

Note 14. 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 the Service and Rentals product line revenues are stable throughout the year. Rental revenues are also impacted by both the Company's and its customers' capital investment decisions. The USA and Rest of World segments are not significantly impacted by seasonal variations. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.

Note 15. Segmented Information

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the six months ended June 30, 2016, the Company had no individual customers which accounted for more than 10% of its revenue.

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

Three months ended	Canada		USA		Rest of World		Total	
June 30,	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment revenue	**$ 59,804**	$ 132,274	**$ 98,464**	$ 162,180	**$ 101,507**	$ 125,386	**$ 259,775**	$ 419,840
Intersegment revenue	**(1,722)**	(2,442)	**(4,155)**	(27,611)	**(830)**	(66)	**(6,707)**	(30,119)
External revenue	**$ 58,082**	$ 129,832	**$ 94,309**	$ 134,569	**$ 100,677**	$ 125,320	**$ 253,068**	$ 389,721
Operating income	**$ 577**	$ 11,326	**$ 4,990**	$ 11,619	**$ 16,256**	$ 14,035	**$ 21,823**	$ 36,980

Six months ended	Canada		USA		Rest of World		Total	
June 30,	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Segment revenue	**$ 121,905**	$ 288,760	**$ 215,363**	$ 405,406	**$ 209,402**	$ 221,892	**$ 546,670**	$ 916,058
Intersegment revenue	**(2,672)**	(6,899)	**(11,234)**	(63,780)	**(7,994)**	(137)	**(21,900)**	(70,816)
External revenue	**$ 119,233**	$ 281,861	**$ 204,129**	$ 341,626	**$ 201,408**	$ 221,755	**$ 524,770**	$ 845,242
Operating income (loss)	**$ (10,826)**	$ 20,937	**$ 13,002**	$ 22,821	**$ 18,348**	$ 26,848	**$ 20,524**	$ 70,606

	Canada		USA		Rest of World		Total	
As at	**Jun. 30, 2016**	Dec. 31, 2015	**Jun. 30, 2016**	Dec. 31, 2015	**Jun. 30, 2016**	Dec. 31, 2015	**Jun. 30, 2016**	Dec. 31, 2015
Segment assets	**$ 383,362**	$ 406,343	**$ 346,608**	$ 401,265	**$ 726,569**	$ 793,743	**$ 1,456,539**	$ 1,601,351
Goodwill	**157,169**	249,261	**137,027**	148,134	**334,849**	351,209	**629,045**	748,604
Corporate	**-**	-	**-**	-		-	**(164,919)**	(154,866)
	540,531	655,604	**483,635**	549,399	**1,061,418**	1,144,952	**1,920,665**	2,195,089
Asset held for sale	**14,057**	14,175	**-**	-	**-**	-	**14,057**	14,175
Total segment assets	**$ 554,588**	$ 669,779	**$ 483,635**	$ 549,399	**$ 1,061,418**	$ 1,144,952	**$ 1,934,722**	$ 2,209,264

Note 16. Subsequent Event

Subsequent to June 30, 2016, the Company declared a quarterly dividend of $0.085 per share, payable on October 6, 2016, to shareholders of record on August 17, 2016.

DIRECTORS AND EXECUTIVES

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Denver, CO

W. Byron Dunn [2,4]
Director
Dallas, TX

J. Blair Goertzen
Director
President and
Chief Executive Officer
Calgary, AB

Wayne S. Hill [2,5]
Director
Toronto, ON

[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

H. Stanley Marshall [3]
Director
Paradise, NL

Stephen J. Savidant
Chairman
Calgary, AB

Michael A. Weill [6]
Director
Houston, TX

Helen J. Wesley [6]
Director
Calgary, AB

D. James Harbilas
Executive Vice President and
Chief Financial Officer
Calgary, AB

Bradley Beebe
President, Canada
Calgary, AB

Marc Rossiter
President, United States of America
Houston, TX

Patricia Martinez
President, Latin America
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SHAREHOLDERS' INFORMATION

COMMON SHARES

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

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

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Calgary, AB Canada

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The Toronto Dominion Bank
Calgary, AB Canada

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