REPORT FOR THE YEAR ENDED DECEMBER 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

February 22, 2018

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 the years ended December 31, 2017 and 2016, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

The MD&A has been prepared taking into consideration information that is available up to February 22, 2017 and focuses on information and key statistics from the audited annual 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, including the Annual Information Form and Management Information Circular is 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, CO_2 processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry.

Headquartered in Calgary, Canada, Enerflex has approximately 2,100 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint ventures, operate in Canada, the United States of America, Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, Indonesia, Malaysia, and Thailand.

Enerflex has fabrication facilities in Calgary, Canada; Houston, United States of America ("USA"); and Brisbane, Australia that supply custom fabricated equipment to our customers worldwide. Enerflex is a leading supplier in Canada, the USA, Mexico, Latin America, and the Middle East rental markets for natural gas compression with a global rental fleet of over 600,000 horsepower. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 44 service locations in Canada, the USA, Latin America, the Middle East, Asia, and Australia.

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

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. Engineered Systems encompasses Enerflex's expertise with integrated turnkey gas processing solutions and power generation facilities, as well as retrofit solutions, which provides re-engineering, reconfiguration, and repackaging of compressors for various field applications. The region has a manufacturing facility in Calgary, Alberta with retrofit facilities in Calgary, Grande Prairie, and Red Deer, Alberta.
- The Service product line operates under the Gas Drive brand in Canada and provides mechanical services and parts distribution. In 2015, Enerflex's distributorship agreement for GE's Waukesha natural gas engines and parts changed from being the authorized distributor in Canada and Australia to being a Global Platinum partner under GE's Waukesha Power Packager program. As a Platinum Power Packager, the Company provides worldwide factory-direct access to Waukesha engines and parts. In addition, Gas Drive is the authorized distributor and service provider of MAN and GE's Jenbacher engines and parts. Service branches are located in British Columbia, Alberta, Ontario, and Quebec.
- The Rentals division provides reciprocating and rotary screw natural gas compression packages ranging from 50 to 2,500 horsepower and electric power equipment for rent to customers located in western Canada from its locations in Calgary and Grande Prairie, Alberta.

USA

- The Engineered Systems product line provides custom and standard compression packages for reciprocating and screw compressor applications. 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 manufacturing and retrofit facility is located in Houston, Texas.
- 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. As a Platinum Power Packager of GE's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex packages CAT engines and parts. The Service branches are located in Alaska, Colorado, Louisiana, North Dakota, Oklahoma, Pennsylvania, Texas, and Wyoming.
- Rentals provides natural gas compression equipment rentals to oil and gas customers primarily operating in the Permian and SCOOP/STACK formations utilizing a fleet of low and medium-horsepower packages. Low to medium-horsepower compressor packages are typically utilized in wellhead, gas-lift, and natural gas gathering systems and other applications primarily in connection with natural gas and oil production. The Rental product line in the USA operates out of Enerflex's Oklahoma City, Oklahoma facility.

Rest of World

- Latin America, with locations in Argentina, Bolivia, Brazil, Colombia, and Mexico, provides Engineered Systems products, including integrated turnkey natural gas compression and processing solutions, with local construction and installation capabilities. The Service product line focuses on after-market services, parts and components, as well as operations, maintenance, and overhaul services. As a

Platinum Power Packager of GE's Waukesha engines, the Company provides worldwide factory-direct access to Waukesha engines and parts. The Rentals product line provides natural gas compression and processing equipment for rent to oil and gas customers in the region.

- The Australia region is headquartered in Brisbane, Queensland with additional locations in New South Wales, Southern Australia, and Western Australia. In January 2016, the Australia region streamlined its operations and re-focused on after-market services, equipment supply, parts supply, and general asset management. Although the Australian region has reduced its packaging and EPC capabilities over the last two years, the region continues to deploy product fabricated by Enerflex's Engineered Systems in Houston, Texas. The Australia region has distributed GE's Waukesha natural gas engines as a Global Platinum partner pursuant to GE's Waukesha Power Packager program. As a GE Global Platinum partner, the Company has worldwide factory-direct access to Waukesha engines and parts.
- The Asia region, with locations and operations in Indonesia, Thailand, and Malaysia, provides Engineered Systems and Rentals to customers. Service capabilities are also offered in this region through the Company's local operations. This division also provides mechanical service and parts as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry in this region.
- The Middle East/Africa ("MEA") region, through its operations in the UAE, Oman, Kuwait, and Bahrain, provides engineering, design, procurement, and construction services for compression and process equipment, as well as rentals, after-market service, and operations and maintenance services for gas compression and processing facilities in the region. This region also provides mechanical services and parts as a global Platinum Power Packager of GE Waukesha gas engines for the oil and gas industry.
- The Europe/Commonwealth of Independent States ("CIS") region provides customized compression, processing, and high-end refrigeration solutions including CO_2 compression and liquefaction through its location in the United Kingdom. This region also provides mechanical service and parts as a global Platinum Power Packager of GE's Waukesha gas engines for the oil and gas industry.

Engineered Systems

The Engineered Systems product line is comprised of three product offerings: Compression, Process, and Electric Power. Compression packages are offered from 20 to 10,000 plus horsepower and ranging from low specification field compressors to high specification process compressors for onshore and offshore applications. The Company also provides retrofit solutions which includes re-engineering, reconfiguration, and repackaging of compressors for various field applications. Processing equipment includes plant compression, general processing, dew point control, dehydration and liquids separation, and amine sweetening to remove H_2S or CO_2. For Electric Power, a typical power generation unit is comprised of a natural gas reciprocating engine driver, a generator, and control devices. Facilities dedicated to the Engineered Systems product line occupy approximately 250,000 square feet of manufacturing space in Canada, approximately 180,000 square feet of shop space in the USA, and approximately 40,000 square feet of manufacturing space in Australia.

Service

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization programs, manufacturer warranties, exchange components, and technical services to our global customers. The division operates through an extensive network of branch offices and generally provides its services at the customer's wellsite location using trained technicians and mechanics. Enerflex is a Global Platinum partner under GE's Waukesha Power Packager program, which allows the Company to package and service Waukesha engines for its customers worldwide. Gas Drive is the authorized distributor for MAN and GE's Jenbacher engines and parts in Canada. In addition, Enerflex is the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Outside of Gas Drive's designated distribution/service areas, after-market service is provided under the Enerflex name. Enerflex's after-market service and support business includes 44 outlets situated in active natural gas producing areas, over 450 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, power generation, and processing equipment. The rental fleet is currently deployed across Western Canada, the USA, Argentina, Brazil, Colombia, Mexico, Bahrain, Oman, and the UAE, and provides comprehensive contract operations services to customers in each of those regions. These services include the provision of personnel, equipment, tools, materials, and supplies to meet our customers' natural gas compression and processing needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services. The Rentals product line encompasses a fleet of natural gas compressors totaling approximately 600,000 horsepower on rent or available for rent globally.

FINANCIAL OVERVIEW

($ Canadian thousands)	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Total revenue	**$ 450,065**	$ 343,385	**$ 1,553,355**	$ 1,130,604
Gross margin	**84,100**	69,152	**286,523**	243,784
Selling and administrative expenses	**37,693**	48,170	**164,249**	178,371
Operating income	**46,407**	20,982	**122,274**	65,413
Earnings (loss) before finance costs and taxes ("EBIT")	**47,215**	(36,284)	**145,795**	(81,472)
Net earnings (loss)	**$ 26,702**	$ (45,488)	**$ 97,753**	$ (104,140)
Key Financial Performance Indicators[1]				
Bookings	**$ 223,590**	$ 262,192	**$ 1,141,032**	$ 853,337
Backlog	**$ 670,799**	$ 621,397	**$ 670,799**	$ 621,397
Recurring revenue as a percentage of revenue[2]	**29.7%**	41.7%	**29.7%**	41.7%
Gross margin as a percentage of revenue	**18.7%**	20.1%	**18.4%**	21.6%
EBIT as a percentage of revenue[2, 3]	**9.4%**	(7.2)%	**9.4%**	(7.2)%
Earnings (loss) before interest, tax, depreciation and amortization ("EBITDA")[3]	**$ 67,435**	$ (12,442)	**$ 226,373**	$ 11,627
Return on capital employed ("ROCE")[3]	**10.9%**	(5.7)%	**10.9%**	(5.7)%
Cash from operations	**$ 12,485**	$ 4,351	**$ 179,251**	$ 91,792

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

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

[3] Includes the impact of impairments.

FOURTH QUARTER AND TWELVE MONTHS OF 2017 OVERVIEW

For the three months ended December 31, 2017:

- Revenue improved quarter-over-quarter, even when compared to the strong fourth quarter of 2016. Enerflex generated revenue of $450.1 million, a 31.1 percent increase compared to $343.4 million in the fourth quarter of 2016. The quarterly revenue increase of $106.7 million was driven primarily by the strength in Engineered Systems revenues in Canada and the USA.
- Gross margin was $84.1 million in the fourth quarter of 2017 compared to $69.2 million in the same period of 2016. While revenues are strong, gross margins percentage is down when compared to the prior year. In the fourth quarter of 2017, gross margin as a percentage of revenue was 18.7 percent compared to 20.1 percent in the comparable period for 2016, largely due to higher contribution from the lower margin Engineered Systems product line. Margin pressure on the Engineered Systems product line, as well as some margin erosion on certain large Engineered Systems projects also contributed to the lower margins. The margin erosion included reductions of previously recognized margins as a result of an increase in estimated costs to complete these projects.
- Incurred SG&A costs of $37.7 million in the fourth quarter of 2017, down from $48.2 million in the same period last year. A portion of the reduction is due to the restructuring costs incurred in 2016 and the resultant reduction in core SG&A costs in 2017. In addition, there was lower occupancy costs, an FX expense recovery, and a reduction to stock based compensation due to the decreased share price in the quarter.
- Reported EBIT of $47.2 million during the fourth quarter of 2017 compared to EBIT loss $36.3 million in the fourth quarter of 2016. The 2016 results include a $68.8 million goodwill impairment and an $11.5 million gain on sale of building and property, plant and equipment ("PP&E").
- Recorded bookings of $223.6 million for three months ended December 31, 2017, a 14.7 percent decrease compared to the $262.2 million recorded during the same period last year.
- Closed a private placement offering of senior unsecured notes for gross proceeds of $175.0 million U.S. dollars and $45.0 million Canadian dollars.
- Subsequent to December 31, 2017, the Company declared a quarterly dividend of $0.095 per share, payable on April 5, 2018, to shareholders of record on March 8, 2018.

For the twelve months ended December 31, 2017:

- Generated revenue of $1,553.4 million, a 37.4 percent increase compared to $1,130.6 million in the twelve months of 2016, largely driven by increased Engineered Systems revenues in the Canada and USA segments.
- Gross margin was $286.5 million in the twelve months of 2017 compared to $243.8 million in the same period of 2016. Gross margin as a percentage of revenue decreased to 18.4 percent from 21.6 percent primarily as a result of margin pressure on the Engineered Systems product line, a change in product mix with higher revenues from the lower margin Engineered Systems product line, margin erosion on large projects within the USA and Canada segments, and the completion of high margin projects in 2016.
- Incurred SG&A costs of $164.2 million in the twelve months of 2017, down from $178.4 million in the same period last year. The SG&A costs have decreased due to the effects of restructuring activities undertaken in prior periods, reduced occupancy costs with certain facility closures, and lower bad debt expense, partially offset by higher legal expenditures and increased compensation accruals based on stronger earnings.
- Recognized a $22.5 million gain on disposal of PP&E in 2017, primarily on the sale of buildings in Canada. The prior year results include $11.5 million of gains on disposal of PP&E.

- Reported EBIT of $145.8 million during the twelve months of 2017 compared to an EBIT loss of $81.5 million in the same period of 2016, driven by the improved period-over-period operational results and the goodwill impairment of $160.9 million recognized in 2016.
- On July 31, 2017, Enerflex closed an agreement to acquire the contract compression business of Mesa Compression, LLC ("Mesa"). The purchase price after adjustments was $115.5 million U.S. dollars. For the twelve months of 2017, Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa, as well as rental units entered into service subsequent to the acquisition, contributed $16.7 million of revenue, $3.9 million of EBIT, and $9.1 million of EBITDA. Please refer to Note 7 of the consolidated financial statements.
- Recorded bookings of $1,141.0 million, a 33.7 percent increase compared to the $853.3 million recorded during the same period last year.
- Engineered Systems backlog at December 31, 2017 was $670.8 million, an 8.0 percent increase compared to the December 31, 2016 backlog of $621.4 million.

Adjusted EBIT and Adjusted EBITDA

The Company has recorded a number of items in its results that are not expected to recur in the normal course of business. The exclusion of these items presents a view of the results that should be more representative of the Company's normal operations. The presentation of adjusted EBIT and adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. The adjusted EBIT and 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 had been adjusted for presentation purposes relate generally to three categories: 1) impairment or gains on assets; 2) restructuring activities; and 3) acquisition costs. Exclusion of these items should allow for the proper evaluation of ongoing, normal operations of the Company. Enerflex has also presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes that are not directly linked to the current period performance of the Company.

Three months ended December 31, 2017 *($ Canadian thousands)*	Total	Canada	USA	ROW
Reported EBIT	$ 47,215	$ 12,018	$ 22,282	$ 12,915
Restructuring costs in COGS and SG&A	-	-	-	-
Write-down of equipment in COGS	1,213	-	1,213	-
(Gain) loss on disposal of PP&E	(44)	8	9	(61)
Acquisition costs	-	-	-	-
Goodwill impairment	-	-	-	-
Adjusted EBIT	$ 48,384	$ 12,026	$ 23,504	$ 12,854
Depreciation and amortization	20,220	3,184	4,823	12,213
Adjusted EBITDA	$ 68,604	$ 15,210	$ 28,327	$ 25,067
Share-based compensation ("SBC")	(423)			
Adjusted EBITDA excluding SBC	$ 68,181			

Three months ended December 31, 2016 *($ Canadian thousands)*		Total		Canada		USA		ROW
Reported EBIT (loss)	$	(36,284)	$	(67,774)	$	20,412	$	11,078
Restructuring costs in COGS and SG&A		7,051		2,267		209		4,575
Write-down of equipment in COGS		5,853		3,997		-		1,856
(Gain) loss on disposal of PP&E		(11,386)		(11,387)		(29)		30
Acquisition costs		-		-		-		-
Goodwill impairment		68,802		68,802		-		-
Adjusted EBIT	$	34,036	$	(4,095)	$	20,592	$	17,539
Depreciation and amortization		23,842		4,864		2,975		16,003
Adjusted EBITDA		57,878	$	769	$	23,567	$	33,542
Share-based compensation		4,365						
Adjusted EBITDA excluding SBC	$	62,243						

Twelve months ended December 31, 2017 *($ Canadian thousands)*		**Total**		**Canada**		**USA**		**ROW**
Reported EBIT	**$**	**145,795**	**$**	**37,969**	**$**	**73,195**	**$**	**34,631**
Restructuring costs in COGS and SG&A		**940**		**452**		**0**		**488**
Write-down of equipment in COGS		**1,213**		**-**		**1,213**		**-**
(Gain) loss on disposal of PP&E		**(22,465)**		**(22,474)**		**26**		**(17)**
Acquisition costs		**1,110**		**-**		**1,110**		**-**
Goodwill impairment		**-**		**-**		**-**		**-**
Adjusted EBIT	**$**	**126,593**	**$**	**15,947**	**$**	**75,544**	**$**	**35,102**
Depreciation and amortization		**80,578**		**13,311**		**14,536**		**52,731**
Adjusted EBITDA	**$**	**207,171**	**$**	**29,258**	**$**	**90,080**	**$**	**87,833**
Share-based compensation		**6,915**						
Adjusted EBITDA excluding SBC	**$**	**214,086**						

Twelve months ended December 31, 2016 *($ Canadian thousands)*		Total		Canada		USA		ROW
Reported EBIT	$	(81,472)	$	(168,884)	$	39,788	$	47,624
Restructuring costs in COGS and SG&A		13,746		7,669		1,020		5,057
Write-down of equipment in COGS		5,853		3,997		-		1,856
(Gain) loss on disposal of PP&E		(11,523)		(11,402)		21		(142)
Acquisition costs		-		-		-		-
Goodwill impairment		160,894		160,894		-		-
Adjusted EBIT	$	87,498	$	(7,726)	$	40,829	$	54,395
Depreciation and amortization		93,099		17,336		13,840		61,923
Adjusted EBITDA	$	180,597	$	9,610	$	54,669	$	116,318
Share-based compensation		9,731						
Adjusted EBITDA excluding SBC	$	190,328						

The adjusted EBIT and adjusted EBITDA increased for both the three months and twelve months ended December 31, 2017 as compared to the comparable periods in 2016. Please refer to the section "Segmented Results" for additional information about results by geographic location.

While it has not been included in the adjusted EBIT or adjusted EBITDA calculation, SG&A costs in the fourth quarter and twelve months of 2017 includes approximately $1.1 million and $8.7 million respectively, of costs related to ongoing arbitration proceedings with Oman Oil Exploration and

Production LLC ("OOCEP"). The fourth quarter and twelve months of 2016 included approximately $1.7 million and $7.6 million of arbitration related costs respectively.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

Bookings	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2017**	2016	**2017**	2016
Canada	**$ 30,902**	$ 113,649	**$ 347,944**	$ 174,942
USA	**160,560**	143,043	**638,165**	585,203
Rest of World	**32,128**	5,500	**154,923**	93,192
Total bookings	**$ 223,590**	$ 262,192	**$ 1,141,032**	$ 853,337

Backlog	**December 31,**	December 31,
($ Canadian thousands)	**2017**	2016
Canada	**$ 172,918**	$ 167,260
USA	**394,861**	390,399
Rest of World	**103,020**	63,738
Total backlog	**$ 670,799**	$ 621,397

Bookings were lower in the fourth quarter of 2017 compared to the same period of 2016 due to a decrease in bookings for the Canada segment. This decline was offset by stronger bookings in the USA and ROW segments. The lower fourth quarter bookings in Canada are the result of customers being cautious due to commodity prices. The fourth quarter bookings for Canada also includes a customer cancellation of a previously recorded booking due to the ongoing low natural gas prices in Canada. Bookings for the twelve months ended December 31, 2017 were higher than 2016 with stronger bookings across all segments.

The movement in exchange rates resulted in an increase of $2.2 million during the fourth quarter of 2017 and a decrease of $31.5 million on foreign currency denominated bookings during twelve months of 2017, compared to an increase of $10.8 million during the fourth quarter of 2016 and $1.2 million for twelve months of 2016.

SEGMENTED RESULTS

Canada Segment Results

	Three months ended December 31,		Twelve months ended December 31,	
($ Canadian thousands)	**2017**	2016	**2017**	2016
Bookings	**$ 30,902**	$ 113,649	**$ 347,944**	$ 174,942
Backlog	**172,918**	167,260	**172,918**	167,260
Segment revenue	**$ 159,996**	$ 56,643	**$ 421,077**	$ 239,471
Intersegment revenue	**(447)**	(3,375)	**(2,487)**	(6,646)
Revenue	**$ 159,549**	$ 53,268	**$ 418,590**	$ 232,825
Revenue – Engineered Systems	**$ 141,575**	$ 32,293	**$ 342,286**	$ 158,610
Revenue – Service	**$ 15,163**	$ 15,637	**$ 64,451**	$ 59,311
Revenue – Rental	**$ 2,811**	$ 5,338	**$ 11,853**	$ 14,904
Operating income (loss)	**$ 11,262**	$ (10,510)	**$ 14,439**	$ (21,878)
EBIT[1]	**$ 12,018**	$ (67,774)	**$ 37,969**	$ (168,884)
EBITDA[1]	**$ 15,202**	$ (62,910)	**$ 51,280**	$ (151,548)
Segment revenue as a % of total revenue	**35.5%**	15.5%	**26.9%**	20.6%
Recurring revenue as a % of segment revenue	**11.3%**	39.4%	**18.2%**	31.9%
Operating income (loss) as a % of segment revenue	**7.1%**	(19.7)%	**3.4%**	(9.4)%
EBIT as a % of segment revenue	**7.5%**	(127.2)%	**9.1%**	(72.5)%
EBITDA as a % of segment revenue	**9.5%**	(118.1)%	**12.3%**	(65.1)%

[1] Inclusive of a $22.5 million gain on the sale of idle facilities and other PP&E in the twelve months of 2017 and goodwill impairment of $68.8 million and $160.9 million recorded during the fourth quarter and twelve months of 2016, respectively.

The stability in commodity prices has generated improved revenues as producers increased capital expenditures earlier in the year. However, with regional transportation issues and the resultant impact on commodity pricing, customers have become more restrained with their spending levels, which has impacted bookings over the second half of 2017. There was also a customer cancellation of a previous booking during the fourth quarter, driven by low natural gas prices, that negatively impacted the bookings number.

The increase in revenue of $106.3 million and $185.8 million for the fourth quarter and the twelve months of 2017 respectively, compared to the same period of 2016, was primarily attributable to higher revenues from the Engineered Systems product line, largely driven by increased customer demand over the first half of 2017 as customers increased capital spending based on stability of commodity pricing. Additionally, the fourth quarter revenues were higher due to certain projects for which revenue recognition was expected in the third quarter but was delayed into the fourth quarter. Service revenues for the quarter are in line with the comparative period from the prior year. Contracted rental revenues are consistent with the comparative period but revenues from the Rental product line are down due to lower equipment sales.

Operating income for the fourth quarter and twelve months of 2017 improved by $21.8 million and $36.3 million respectively, primarily due to increased revenues and lower SG&A costs as a result of previously undertaken restructuring activities, partially offset by project margin erosion. The SG&A costs in the fourth quarter and twelve months of 2016 were also higher due to restructuring costs incurred.

EBIT for the fourth quarter of 2017 was $79.8 million higher than the comparable period in 2016 due to the improved operational results and a goodwill impairment recognized during 2016. EBIT for the year is $206.9 million higher than the prior year. The prior year results were significantly impacted by goodwill impairments and restructuring costs. Current year results are also higher due to the improved operational results and gains recognized on the sale of assets, particularly an idle manufacturing facility in the third quarter.

USA Segment Results

($ Canadian thousands)	Three months ended December 31, 2017	2016	Twelve months ended December 31, 2017	2016
Bookings	**$ 160,560**	$ 143,043	**$ 638,165**	$ 585,203
Backlog	**394,861**	390,399	**394,861**	390,399
Segment revenue	**$ 208,336**	$ 160,966	**$ 796,807**	$ 482,560
Intersegment revenue	**(3,476)**	(2,855)	**(17,772)**	(16,459)
Revenue	**$ 204,860**	$ 158,111	**$ 779,035**	$ 466,101
Revenue – Engineered Systems	**$ 155,892**	$ 129,123	**$ 633,703**	$ 347,735
Revenue – Service	**$ 36,426**	$ 26,548	**$ 119,398**	$ 106,107
Revenue – Rental	**$ 12,542**	$ 2,440	**$ 25,934**	$ 12,259
Operating income	**$ 22,291**	$ 20,385	**$ 73,221**	$ 39,809
EBIT	**$ 22,282**	$ 20,412	**$ 73,195**	$ 39,788
EBITDA	**$ 27,105**	$ 23,387	**$ 87,731**	$ 53,628
Segment revenue as a % of total revenue	**45.5%**	46.0%	**50.2%**	41.2%
Recurring revenue as a % of segment revenue	**23.9%**	18.3%	**18.7%**	25.4%
Operating income as a % of segment revenue	**10.9%**	12.9%	**9.4%**	8.5%
EBIT as a % of segment revenue	**10.9%**	12.9%	**9.4%**	8.5%
EBITDA as a % of segment revenue	**13.2%**	14.8%	**11.3%**	11.5%

In the fourth quarter of 2017, bookings increased by $17.5 million or 12.2 percent compared to the same period in the prior year. There has been an increase in diversity of bookings by customer and customer type relative to the prior year, with a significant portion of bookings being related to assets that will be deployed into the Permian basin. The backlog in the USA segment remains healthy at $394.9 million.

The increase in revenue of $46.7 million and $312.9 million in the fourth quarter and twelve months of 2017 respectively, compared to the same periods of 2016, is due to strength in revenues across all product lines, particularly Engineered Systems. Engineered Systems revenue increased due to the realization of the strong bookings that began in the second half of 2016 and continued throughout 2017. Service revenues increased over the same periods from the prior year due to higher activity. Rental revenues increased as a result of the acquisition of the contract compression business from Mesa and the build-out of the contract compression fleet over the last half of 2017.

Operating income increased by $1.9 million in the fourth quarter of 2017 due to higher revenues offset by increased SG&A costs driven by higher compensation costs and lower bad debt recovery. Operating income increased by $33.4 million during the twelve months of 2017 due to higher revenue levels, particularly in Engineered Systems, offset by margin erosion on certain projects.

Rest of World Segment Results

($ Canadian thousands)	Three months ended December 31, **2017**	2016	Twelve months ended December 31, **2017**	2016
Bookings	**$ 32,128**	$ 5,500	**$ 154,923**	$ 93,192
Backlog	**103,020**	63,738	**103,020**	63,738
Segment revenue	**$ 86,238**	$ 132,010	**$ 356,932**	$ 439,676
Intersegment revenue	**(582)**	(4)	**(1,202)**	(7,998)
Revenue	**$ 85,656**	$ 132,006	**$ 355,730**	$ 431,678
Revenue – Engineered Systems	**$ 23,189**	$ 53,830	**$ 115,641**	$ 152,799
Revenue – Service	**$ 32,147**	$ 41,556	**$ 124,336**	$ 133,273
Revenue – Rental	**$ 30,320**	$ 36,620	**$ 115,753**	$ 145,606
Operating income	**$ 12,854**	$ 11,107	**$ 34,614**	$ 47,482
EBIT	**$ 12,915**	$ 11,078	**$ 34,631**	$ 47,624
EBITDA	**$ 25,128**	$ 27,081	**$ 87,362**	$ 109,547
Segment revenue as a % of total revenue	**19.0%**	38.4%	**22.9%**	38.2%
Recurring revenue as a % of segment revenue	**72.9%**	59.2%	**67.5%**	64.6%
Operating income as a % of segment revenue	**15.0%**	8.4%	**9.7%**	11.0%
EBIT as a % of segment revenue	**15.1%**	8.4%	**9.7%**	11.0%
EBITDA as a % of segment revenue	**29.3%**	20.5%	**24.6%**	25.4%

Bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent. Bookings for the current quarter primarily relates to a project booked in Argentina. Backlog for the segment remains strong at $103.0 million.

Rest of World revenue decreased by $46.4 million in the fourth quarter of 2017 and by $75.9 million in the twelve months of 2017 compared to the same periods in the prior year, with decreases across all product lines. Engineered Systems revenue in the quarter was lower due to the completion of projects within Latin America in the fourth quarter of 2016. Year-to-date Engineered Systems revenue was down due to the completion of some larger projects in 2016, largely in the Middle East and Argentina. The decline in Rental revenues is due to lower utilization and rental rates in Mexico as there continues to be lower natural gas reinjections in locations where the Company's rental assets are deployed. The period-over-period results are also impacted by the rental contract for a large gas processing facility not being renewed in 2017. Service revenue decreased in the quarter with lower service levels in Latin America and reduced parts sales in Australia and Asia.

Operating income increased by $1.7 million in the fourth quarter and decreased by $12.9 million in twelve months of 2017 respectively, compared to the same period of 2016. While revenues were down in the quarter compared to the same period from 2016, operating income for the quarter improved over the prior year largely due to reductions in SG&A driven by lower onerous lease provisions and higher foreign exchange gains. The decrease in the year to date operating income is driven by decreased gross margins as the result of lower revenues, a change in product mix with a lower proportion of sales coming from high-margin revenue streams, and the completion of a higher margin projects in 2016.

INCOME TAXES

Income tax expense totaled $16.8 million or 38.6 percent and $35.3 million or 26.5 percent of earnings before tax for the fourth quarter and year ended December 31, 2017 compared to income tax expense of $6.5 million or 21.8 percent and $9.0 million or 13.8 percent of earnings before tax excluding the goodwill impairment in the same periods of 2016. Income tax expense for the year was higher primarily due to an increase in earnings before tax and the impact of earnings taxed in foreign jurisdictions, partially offset by the effect of unrealized exchange rate fluctuations on tax bases in foreign jurisdictions. The change in the effective tax rate is primarily due to the mix of earnings taxed in foreign jurisdictions partially offset by the effect of the exchange rate fluctuations on tax bases in foreign jurisdictions.

The Company has also assessed the U.S. tax reform in the Tax Cuts and Jobs Act ("the Act") on USA operations. The main impacts to the Company will arise from the reduction of the federal corporate income tax rate to 21.0 percent and the ability to immediately expense certain qualified property for tax purposes. The Act has had an immaterial impact on the calculation of the 2017 tax expense and deferred tax liability calculations because of the relatively small balance of accumulated timing differences between tax and accounting income as at December 31, 2017. Moving forward, the impact of U.S. tax reform will be to reduce tax expense and have a positive impact on cash flows by delaying the date that the Company becomes cash taxable in the USA.

OUTLOOK

There was a return to some much-needed stability in commodity pricing in 2017. Additionally, producers have rebalanced their cost structures to be able to compete at current commodity prices. Recent strengthening in prices is encouraging but also leads to concerns about potential oversupply if producers, particularly in the USA, ramp up production in response to the increased prices.

Enerflex's financial performance also continues to benefit from strategic decisions to focus on the recurring revenue streams derived from new and existing long-term rental and service contract progress, and to develop a geographically diversified business. However, in Canada and Mexico these product lines will remain under pressure until we see a return to commodity pricing that will allow customers to increase capital investments.

The Company will continue to aggressively manage SG&A expenses. Steps taken during 2015, 2016, and the first part of 2017 have allowed a greater focus on key market opportunities and resulted in a lower headcount, which led to ongoing material savings. The Company has begun to increase headcount again in response to increased operational levels but remains disciplined in keeping the appropriate levels staffing.

Outlook by Segment

Canada

Prices and growth plans in Canada remain stagnant as Canadian producers continue to be constrained by a lack of export options. Western Canadian production continues to be priced at a significant discount to other North American benchmark pricing. Natural gas prices in Western Canada have declined over the last half of 2017 and into 2018, impacting many of the Company's customers. There continues to be demand for NGLs and options for NGL exports, which should allow for some stability in capital investment and drilling activity, particularly in liquids-rich areas. The Company experienced a cancelation by a customer in the fourth quarter of 2017 driven by low natural gas prices and customers remain cautious about 2018 capital expenditures. Enerflex expects that activity in Canada will be subdued compared to 2017, and will remain so until there is a recovery in natural gas prices and proper export solutions for Western Canadian production.

USA

The USA outlook continues to be largely dependent on production from shale oil and gas. With the recent increase in commodity prices, along with lower corporate tax rates and increased production, the Company expects 2018 to be a year of continued steady demand for compression and processing equipment, as evidenced by the strong fourth quarter bookings for this region. The contract compression rental fleet in the USA has grown to approximately 160,000 horsepower at December 31, 2017, which represents a 22.5 percent increase since the acquisition of contract compression assets from Mesa in July 2017. This line of business provides a valuable recurring revenue source and the Company will continue to grow and invest in these assets in 2018. As Permian production continues to expand, the Company sees additional growth opportunities.

Rest of World

In the Rest of World segment, Enerflex has seen project successes in both MEA 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 vast region in order to enhance recurring revenues, focusing on integrated turnkey and build-own-operate-maintain ("BOOM") projects. Customers in Latin America are still recovering from the crash in commodity prices, however it is evident that new production is required in many of the Latin American countries. Enerflex believes that there are near term prospects within Argentina and Colombia and mid- to longer- term prospects in Mexico and Brazil. The Company completed a project in Argentina's Vaca Meurta shale play during 2017 and further development opportunities exist as producers expand production in this formation. Enerflex was also awarded a BOOM project in Colombia in 2017 that will be fully operational in the first quarter of 2018. Increasing investment in Colombia will create more opportunities for the Company. In Mexico, the upcoming presidential elections will provide more clarity on the direction of Energy Reform but it is clear that further investment is required. If the Energy Reform is to proceed, Enerflex expects that there will be more mid-term opportunity as additional independent producers enter the market. Opportunities in Australia relate primarily to the need for increased production due to the supply imbalance driven by higher liquefied natural gas ("LNG") exports and increased domestic natural gas demand. The Company believes that maintenance and service opportunities will increase as producers return to the minimum maintenance requirements for their assets.

ENERFLEX STRATEGY

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

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

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

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

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In the MEA region, the target has been on large rental and service opportunities, where customers have also required construction and installation support at site. In Latin America, the Company has focused on integrated turnkey projects and BOOM solutions, with early successes experienced, primarily in Argentina, while looking at opportunities throughout the region. In Mexico, the Company holds a large rental fleet with associated rental and service contracts. In Brazil, Enerflex has repositioned itself to capitalize on future opportunities, particularly for natural gas-fueled projects.

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

DEFINITIONS

The success of the Company and its business unit strategies is measured using a number of key financial performance indicators, some of which are outlined below. Some of these indicators do not have a standardized meaning as prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. These non-GAAP measures are bookings and backlog, recurring revenue as a percentage of revenue, EBITDA, net debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these non-GAAP measures is provided in the section, *Non-GAAP Measures*. Operating income and EBIT are both considered additional GAAP measures, and are presented in the consolidated statement of earnings (loss), but may not be comparable with similar additional GAAP measures used by other entities.

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.

Bookings and Backlog

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

Recurring Revenue

Recurring revenue is defined as revenue from the Service and Rental product lines, and provides a measure of the Company's revenue that is probable to recur into the future.

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.

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 five quarters.

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.

NON-GAAP MEASURES

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

($ Canadian thousands)	Three months ended December 31, **2017**	Three months ended December 31, 2016	Twelve months ended December 31, **2017**	Twelve months ended December 31, 2016
EBITDA				
Earnings (loss) before finance costs and taxes	**$ 47,215**	$ (36,284)	**$ 145,795**	$ (81,472)
Depreciation and amortization	**20,220**	23,842	**80,578**	93,099
EBITDA	**$ 67,435**	$ (12,442)	**$ 226,373**	$ 11,627
Recurring Revenue				
Service	**$ 83,736**	$ 83,741	**$ 308,185**	$ 298,691
Rental	**45,673**	44,398	**153,540**	172,769
Total recurring revenue	**$ 129,409**	$ 128,139	**$ 461,725**	$ 471,460
ROCE				
Trailing 12-month EBIT[1]	**$ 145,795**	$ (81,472)	**$ 145,795**	$ (81,472)
Capital employed - beginning of period				
Net debt	**$ 202,758**	$ 249,564	**$ 202,402**	$ 420,559
Shareholders' equity	**1,115,155**	1,158,957	**1,117,627**	1,158,040
	$ 1,317,913	$ 1,408,521	**$ 1,344,029**	$ 1,578,599
Capital employed - end of period				
Net debt	**$ 232,726**	$ 226,402	**$ 232,726**	$ 226,402
Shareholders' equity	**1,134,472**	1,117,627	**1,134,472**	1,117,627
	$ 1,367,198	$ 1,344,029	**$ 1,367,198**	$ 1,344,029
Average capital employed[2]	**$ 1,342,871**	$ 1,430,147	**$ 1,342,871**	$ 1,430,147
Return on capital employed	**10.9%**	(5.7)%	**10.9%**	(5.7)%

[1]Includes the impact of impairments.
[2]Based on a trailing five-quarter average.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
December 31, 2017	**$ 450,065**	**$ 26,702**	**$ 0.30**	**$ 0.30**
September 30, 2017	315,019	25,188	0.28	0.28
June 30, 2017	433,484	21,346	0.24	0.23
March 31, 2017	354,787	24,517	0.28	0.28
December 31, 2016	343,385	(45,488)	(0.54)	(0.54)
September 30, 2016	262,449	17,596	0.23	0.23
June 30, 2016	253,068	16,841	0.21	0.21
March 31, 2016	271,702	(93,477)	(1.18)	(1.18)

[1] Amounts presented are from continuing operations.

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

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at December 31, 2017 compared to December 31, 2016:

($ Canadian millions)	Increase (Decrease)	Explanation
Working capital	$40.9	The increase in working capital reflects the higher cash balances on hand at December 31, 2017. Non-cash working capital has decreased from year-end, primarily driven by increases in accounts payable and deferred revenue, partially offset by an increase in accounts receivable. Increases in working capital balances reflect the higher levels of activity in 2017 as compared to 2016.
Rental equipment	$74.1	The increase in rental assets is due to the growth in the USA rental fleet through the acquisition of contract compression assets and capital spending on rental equipment, offset by depreciation and a weakening U.S. dollar relative to the Canadian dollar when comparing the December 31, 2017 exchange rate to December 31, 2016.
Total assets	$248.7	The increase in total assets is primarily related to the increase in cash, accounts receivable, inventory, and rental equipment, partially offset by fixed asset depreciation, and the weakening U.S. dollar relative to the Canadian dollar on a year-to-date basis, which unfavorably impacts U.S. dollar denominated assets.
Long-term debt	$66.0	The increase in long-term debt is due to the drawings on the Bank Facility to fund the Mesa acquisition, offset by a stronger Canadian dollar, which impacted the revaluation of U.S. dollar denominated debt.
Decommissioning liability	$(9.0)	The decrease in decommissioning liability is due to the decommissioning activities performed in 2017 relating to requirements under a former rental contract, which brought the decommissioning provision to nil at December 31, 2017.
Shareholders' equity before non-controlling interest	$18.2	Shareholders' equity before non-controlling interest increased due to net earnings of $97.6 million, and $5.0 million of stock option costs, offset by a $52.9 million unrealized loss on translation of foreign operations and dividends of $31.0 million.

There were no significant developments in the quarter related to the arbitration proceedings against OOCEP. Previously disclosed variation claims are subject to the outcome of the arbitration proceedings. Approximately $29.2 million in milestone payments due from OOCEP are overdue and remain unpaid. Enerflex is unable to predict when the arbitration will be resolved.

PRIVATE PLACEMENT

On December 15, 2017, the Company closed a private placement offering of senior unsecured notes. Pursuant to the private placement, the Company issued $105.0 million U.S. dollar and $15.0 million Canadian dollar 7-year notes 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 10-year notes maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively.

LIQUIDITY

The Company expects that continued cash flows from operations in 2017, 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, 2017, the Company held cash and cash equivalents of $227.3 million and had cash drawings of $160.6 million against the Bank Facility, leaving it with access to $560.6 million for future drawings. The Company continues to meet its Bank Facility covenant requirements with a net debt to EBITDA ratio of approximately 1:1 compared to the maximum ratio of 3:1.

Summarized Statements of Cash Flow

($ Canadian thousands)	Three months ended December 31, 2017	Three months ended December 31, 2016	Twelve months ended December 31, 2017	Twelve months ended December 31, 2016
Cash, beginning of period	**$ 260,371**	$ 162,360	**$ 167,561**	$ 158,081
Cash provided by (used in):				
Operating activities	**12,485**	4,351	**179,251**	91,792
Investing activities	**(34,392)**	23,430	**(154,838)**	18,887
Financing activities	**(11,075)**	(23,302)	**37,455**	(99,529)
Exchange rate changes on foreign currency cash	**(105)**	722	**(2,145)**	(1,670)
Cash, end of period	**$ 227,284**	$ 167,561	**$ 227,284**	$ 167,561

Operating Activities

For the three months ended December 31, 2017, as compared with the same period in 2016, cash provided by operating activities increased primarily due to improved operational results. For the twelve months ended December 31, 2017, as compared to the same period in 2016, cash provided by operating activities was positively impacted by improved operational results and an increase in non-cash working capital.

Investing Activities

For the three and twelve months ended December 31, 2017 cash used in investing activities increased due to the acquisition of contract compression assets and capital spending on rental equipment, partially offset by increased proceeds on the disposal of buildings.

Financing Activities

For the three and twelve months ended December 31, 2017, cash provided by financing activities increased primarily due to higher draws on the credit facility to fund the Mesa acquisition.

RISK MANAGEMENT

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

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

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

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

Competition

The business in which Enerflex operates in is highly competitive and there are low barriers to entry, especially the natural gas compression services and fabrication business. Enerflex has a number of competitors in all aspects of its business, both domestically and abroad. Some of these competitors, particularly in the Engineered Systems division, are large, multi-national companies. The Company's competitors may be able to adapt more quickly to technological changes within the industry and changes in economic and market conditions, more readily take advantage of acquisitions and other opportunities, and adopt more aggressive pricing policies. In addition, the Company could face significant competition from new entrants into the compression services and fabrication business. Some of Enerflex's existing competitors or new entrants may expand or fabricate new compression units that would create additional competition for the products, equipment, or services to customers.

The Company may not be able to take advantage of certain opportunities or make certain investments because of debt levels and other obligations. Any of these competitive pressures could have a material adverse effect on the Company's business, financial condition, and results of operations.

Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions, and services hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing plants, refrigeration systems, and electric power equipment serving the natural gas production industry. Some of the projects that the Company participates in have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. These projects typically specify delivery dates, performance criteria, and penalties for the failure to perform. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to, changes in project scope, the availability and timeliness of external approvals and other required permits, skilled labour availability and productivity, availability and cost of materials and services, design, engineering, and construction errors, and the availability of contractors to deliver on commitments. Any failure to execute on such larger projects in a timely and cost-effective manner could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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

Cyber-Attacks or Terrorism

Enerflex may be threatened by problems such as cyber-attacks, computer viruses, or terrorism that may disrupt operations and harm operating results. The industry requires the continued operation of sophisticated information technology systems and network infrastructure. Enerflex believes that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks, hacking and phishing attacks, and other attempts to gain unauthorized access. These threats may arise from a variety of sources, all ranging in sophistication from an individual hacker to alleged state-sponsored attack. A cyber threat may be generic, or it may be custom-crafted against the specific information technology used by Enerflex. Over the past year, cyber-attacks have become more prevalent and much harder to detect and defend against. In particular the Company has and will continue to be targeted by parties using fraudulent spoof and phishing emails to misappropriate Enerflex information, 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, our customers, or our suppliers. If a member of Enerflex or a member of one of our customers or suppliers fails to recognize that a phishing email has been sent or received and responds or forwards a phishing email this activity may corrupt the computer networks of Enerflex, our customers, and our suppliers and/or confidential information, including passwords through email or downloaded malware. Despite the efforts of Enerflex and our customers and suppliers mitigate spoof and phishing emails through education and technology spoof and phishing emails and the related fallout from failing to detect these activities remains a serious risk for Enerflex, its customers, and its suppliers. In addition to spoof and phishing emails, our 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.

While the Company expects that the probability of a targeted attack is low, security measures have been implemented to protect the Company's information technology systems and network infrastructure. Despite the implementation of security measures, technology systems may be vulnerable to disability or failures due to hacking, viruses, acts of war or terrorism, and other causes. These security measures put in place by the Company cannot provide absolute security, and the information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee or customer error, malfeasance, or other vulnerabilities. Additionally, Enerflex is reliant on third-party service providers for certain information technology applications. While the Company believes that these third-party service providers have adequate security measures, there can be no assurance that these security measures will prevent any cyber events or computer viruses from impacting the applications that Enerflex relies on. If Enerflex's information technology systems were to fail and it the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions, which could damage the Company's reputation and have a material adverse effect on the business, financial condition, and results of operations.

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

Personnel and Contractors

Enerflex's Engineered Systems product line requires skilled engineers and design professionals in order to maintain customer satisfaction and engage in product innovation. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and 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 few barriers to entry in a number of Enerflex's businesses, so retention of staff is essential in order to differentiate Enerflex's businesses and compete in its various markets.

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.

Contracted Revenue

Many of our customers finance their exploration and development activities through cash flow from operations, incurrence of debt or issuance of equity. During times when oil or natural gas prices weaken, our customers are more likely to experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, which could result in customers seeking to preserve capital by seeking price concessions on contracted recurring revenue contracts, cancelling contracts or determining not to renew contracted recurring revenue contracts with us. In addition, we 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 our business, financial condition, results from operations and cash flows. To the extent that we are unable to renew our existing contracts or enter into new contracts that are on favorable terms to us, our overall revenue mix may change over time which could have a material adverse effect on our business, results from operations and cash flows.

Availability of Raw Materials, Component Parts, or Finished Products

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

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

A challenge to achieving improved profitability will be the timely availability of certain original equipment manufacturer components and repair parts, which will generally be in steady demand.

Information Technology

As Enerflex continues to expand internationally, provide access to engineering and other technical skills in foreign locations, develop web-based applications and monitoring products, and improve its business software applications, information technology assets and protocols become increasingly important. The Company has attempted to reduce this exposure by improving its information technology general controls, updating or implementing new business applications, and hiring or training specific employees with respect to the protection and use of information technology assets.

Foreign Exchange Risk

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 is unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 27 in the consolidated financial statements.

Transaction Exposure

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

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

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

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

Translation Exposure

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

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

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

For the twelve months ended December 31, 2017, a 5 percent depreciation in the Canadian dollar against the U.S. dollar, Australian dollar, British pound and Brazilian real would increase AOCI by $28.6 million. A 5 percent depreciation of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real would increase net earnings before tax by $4.5 million.

Enerflex has entered into a hedge of its exposure to investments in certain foreign subsidiaries, using foreign currency denominated debt. Exchange gains and losses on net investments in foreign subsidiaries are included in AOCI along with the translation gains and losses on the debt being used to hedge the net investments. The AOCI at December 31, 2016 was $125.2 million, which decreased to $72.4 million at December 31, 2017 as a result of changes in the value of the Canadian dollar against the U.S. dollar, Australian dollar, British pound, and Brazilian real.

Credit Risk

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

The Company has remained diligent during 2017 in assessing credit levels granted to customers, monitoring the aging of receivables, and proactively collecting outstanding balances. The challenging economic conditions have resulted in financial failures in the industry but Enerflex has been able to maintain very low levels of doubtful debts. At December 31, 2017, the Company had one customer in the Canada and USA segments for which the accounts receivable balance was $77.4 million, which represents 17.4 percent of total accounts receivable.

Access to Capital

Enerflex relies on its cash, as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its syndicated revolving credit facilities (the "Bank Facility") and senior unsecured notes (the "Senior Notes") to meet its funding and liquidity requirements. The Senior Notes, with various maturity dates, are senior unsecured indebtedness of the organization. The Company's Bank Facility, which is also senior unsecured indebtedness and is subject to floating rates of interest, is due on June 30, 2021 and may be renewed annually with the consent of the lenders. As of December 31, 2017, the Company had $304.5 million outstanding in Senior Notes and $160.6 million outstanding on its Bank Facility.

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

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

As at December 31, 2017, the Company had $560.6 million available in borrowing base on its Bank Facility.

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

International Operations

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

- Recessions and other economic crises that may impact the Company's cost of doing business in those countries;
- Difficulties in staffing and managing foreign operations including logistical, security, and communication challenges;
- Changes in foreign government policies, laws, regulations, and regulatory requirements, or the interpretation, application, and/or enforcement thereof;
- Difficulty or expense of enforcing contractual rights due to the lack of a developed legal system or otherwise;
- Renegotiation or nullification of existing contracts;
- The adoption of new, or the expansion of existing, trade, or other restrictions;
- Difficulties, delays, and expenses that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- Embargoes;
- Acts of war, civil unrest, force majeure, and terrorism;

- Social, political, and economic instability;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- Tax increases or changes in tax laws, legislation, or regulation or in the interpretation, application and/or enforcement thereof; and
- Limitations on the Company's ability to repatriate cash, funds, or capital invested or held in jurisdictions outside Canada.

In addition, Enerflex may expand our business to markets where we have 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 our 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.

Government Regulation, Foreign Corrupt Practices Act, and Anti-Bribery Laws

The Company is subject to health, safety, and environmental laws and regulations that expose it to potential financial liability. The Company's operations are regulated under a number of federal, provincial, state, local, and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage, and disposal of hazardous materials. Compliance with these 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. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the actions of previous owners or operators of industrial facilities on those sites. Liability in certain instances may be imposed on the Company regardless of the legality of the original actions relating to the hazardous or toxic substances or whether or not the Company knew of, or was responsible for, the presence of those substances. The Company is also subject to various Canadian and U.S. federal, provincial, state, and local laws and regulations, as well as foreign 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 Company is required to comply with Canadian and international laws and regulations, including those involving bribery and anti-corruption. Enerflex operates in many parts of the world that experience high levels of corruption, and our business brings us in frequent contact with foreign officials. The Company has controls, policies, procedures, and training that mandate the compliance with these laws and regulations, however there can be no assurance that employees or agents will not violate these controls, policies, and procedures. Any alleged violation of these laws and regulations could disrupt our business and cause Enerflex to incur significant costs to investigate any alleged breach. If Enerflex was found to be in contravention with these laws and regulations, severe civil and criminal penalties and other sanctions could materially harm our reputation, business, result of operations, financial conditions, and liquidity.

Distribution Agreements

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

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

Interest Rate Risk

The Company's liabilities include long-term debt that may be subject to fluctuations in interest rates. The Company's Senior Notes outstanding at December 31, 2017 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, 2017 the Company had $160.6 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 1 percent change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2017 would be $1.6 million. All interest charges are recorded in finance costs on the consolidated statements of earnings in finance costs. Any increase in market interest rates could have a material adverse impact on the Company's financial results, financial condition, or ability to declare and pay dividends.

Climatic Factors and Seasonal Demand

Demand for natural gas fluctuates largely with the heating and electric power requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow, which can have a positive impact on Enerflex. At the same time, access to many western Canadian oil and 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 gas production in the short-term, and can negatively impact the demand for Enerflex's products and services.

Liability Claims

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

Climate Change Risks

The subject of energy and the environment has created intense public debate in Canada, the U.S., and around the world in recent years and into the foreseeable future, and could potentially have a significant impact on all aspects of the economy.

Regulatory Risks

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

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

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

Physical Risks

Some scientists have concluded that increasing GHG concentrations in the atmosphere may produce physical effects, such as increased severity and frequency of storms, droughts, floods, wildfires, and other climate events. Such climate events have the potential to adversely affect the Company's operations or those of its clients, which could in turn have a negative effect on the Company.

Technological Risks

Technological advances and cost declines in renewable power and electric grids, electric vehicles, and batteries may pose a threat to the demand for fossil fuels, which could lead to a lower demand for the Company's products and services.

Social Risks

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

Inflationary Pressures

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

Contract Compression Operations

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

Insurance

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

It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available 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.

Tax Indemnity Agreement

The Company could be exposed to substantial tax liabilities if certain requirements of the "butterfly" rules in section 55 of the Income Tax Act are not complied with. Failure to comply with these requirements could give rise to tax liabilities resulting from the 2011 Plan of Arrangement with Toromont Industries Limited ("Toromont"), which would require the Company to indemnify Toromont for the resulting tax.

CAPITAL RESOURCES

On January 31, 2018, Enerflex had 88,540,398 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. Earlier in the fourth quarter of 2017, the Company declared a quarterly dividend of $0.095 per share.

At December 31, 2017, the Company had drawn $160.6 million against the Bank Facility (December 31, 2016 - $357.8 million). The weighted average interest rate on the Bank Facility at December 31, 2017 was 2.6 percent (December 31, 2016 – 2.4 percent).

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

($ Canadian thousands)		**December 31, 2017**		December 31, 2016
Drawings on Bank Facility	**$**	**160,576**	$	357,829
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**146,723**		-
Notes due December 15, 2027		**117,815**		-
Deferred transaction costs		**(5,104)**		(3,866)
	$	**460,010**	$	393,963

At December 31, 2017, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $200.6 million, and $264.5 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
2018	$ 14,555	$ 324,033	$ 338,588
2019	11,127	1,593	12,720
2020	7,502	1,611	9,113
2021	6,324	-	6,324
2022	3,419	-	3,419
Thereafter	3,968	-	3,968
Total contractual obligations	**$ 46,895**	**$ 327,237**	**$ 374,132**

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

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

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

RELATED PARTIES

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

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

On October 5, 2016, the Company entered into an agreement to sell the Company's 51 percent interest in the Enerflex-ES joint venture. All transactions with the joint venture up to October 5, 2016 have been included as related party transactions. All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties is as follows:

December 31,		2017		2016
Associate – Roska DBO				
Revenue	**$**	**881**	$	696
Purchases		**-**		-
Accounts receivable		**10**		10
Joint Operation – Geogas				
Revenue	**$**	**20**	$	666
Purchases		**91**		145
Accounts receivable		**85**		134
Accounts payable		**-**		68
Joint Venture – Enerflex - ES				
Revenue	**$**	**-**	$	53
Purchases		**-**		-
Accounts receivable		**-**		-

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, 2017. The preparation of financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates, and assumptions which have the most significant effect on the amounts recognized in the, consolidated financial statements:

Revenue Recognition – Construction and Long-Term Service Contracts

The Company reflects revenues generated from the assembly and manufacture of projects and long-term service contracts using the percentage-of-completion approach of accounting. 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.

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

Property, plant and equipment are 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 are reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment requires judgment and is based on currently available information. Property, plant and equipment are 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 on-going basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment constitute a change in accounting estimate and are applied prospectively.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded when there is objective evidence that the collection of the full amount is no longer probable under the terms of the original invoice. Impaired receivables are derecognized when they are assessed as uncollectible. Amounts estimated represent management's best estimate of probability of collection of amounts from customers.

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 entitlements. The determination of the share-based compensation expense for stock options and the phantom share entitlement plan 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.

Discontinued Operations

The Company applies judgment in determining whether the results of operations associated with the assets should be recorded in discontinued operations on the consolidated statements of earnings (loss).

NEW ACCOUNTING POLICIES

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

IAS 7 Statement of Cash Flows ("IAS 7")

An amendment to IAS 7 requires additional disclosures regarding movements in liabilities arising from financing activities to enable users of the financial statements to evaluate changes in these liabilities. The amendments have been adopted effective January 1, 2017. Required additional disclosures have been included in Supplemental Cash Flow Information in Note 29.

IAS 12 Income Taxes ("IAS 12")

The amendments to IAS 12 clarify treatment for the recognition of deferred tax assets for unrealized losses related to debt instruments measured at fair value. The amendments have been adopted effective January 1, 2017. There were no changes to the Consolidated Financial Statements as a result of the adoption.

FUTURE ACCOUNTING PRONOUNCEMENTS

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

i. IFRS 9 *Financial Instruments* ("IFRS 9")

IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, including derecognition. IFRS 9 requires all recognized financial assets under the scope of the current IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. In addition, IFRS 9 requires that changes in fair value attributable to a financial liability's credit risk must be presented in other comprehensive income, rather than in profit or loss. The new standard is effective for annual periods beginning on or after January 1, 2018.

During the year ended December 31, 2017, an assessment was completed on IFRS 9. The Company determined that IFRS 9 will impact the Company's current policies and procedures regarding impairments on trade receivables.

Currently, trade receivables are carried at the original invoice amount less any amounts estimated to be uncollectable, as detailed in Note 3(j). IFRS 9 requires the use of an expected credit loss model for its trade receivables. The Company performed an assessment to quantify the impact on the financial statements at January 1, 2018 as a result of the change in methodology required under the new standard. The calculated impact is not significant to the financial statements.

ii. IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15")

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

The new standard will be adopted on the effective date using the modified retrospective approach. The Company has reviewed its contracts as part of the transition to the new standard, and has identified all performance obligations relating to promises to customers in these contracts.

The performance obligations identified are disaggregated to align with the major categories of revenue. Performance obligations relating to Engineered Systems include the supply of compression, processing, and electric power equipment, as well as retrofit work and construction on integrated turnkey projects. Performance obligations relating to Service include the sales of parts and equipment, and the servicing of equipment, as well as long-term service agreements for scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment. Performance obligations relating to Rental include the leasing of rental assets and the sale of rental equipment.

The performance obligations identified in current contracts are expected to be consistent with those in future contracts, and the Company has used the identified performance obligations as a basis for assessing internal requirements to ensure the required information is available to reliably track and disclose contract revenues and balances. The Company has identified changes to the timing of revenue recognition on Engineered Systems contracts, as described in Note 3(s), and to presentation and disclosure requirements.

Management determined that under IFRS 15, percentage-of-completion revenue recognition will start earlier in a project's life-cycle. The new standard requires that revenue be recognized to the extent costs are incurred until the entity is able to reasonably estimate its progress, assuming the costs are recoverable. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require this approach. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

The resulting impact of adoption of the new standard, to be recorded as an adjustment to opening retained earnings on January 1, 2018 is comprised of the following:

Revenue	$	48,371
Cost of goods sold		44,741
Income taxes		892
Retained earnings adjustment	$	2,738

The revenue and associated costs included in the retained earnings adjustment, above, would have been included in results for 2018 under the existing standard.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other new disclosures, such as contract assets and contract liabilities and discussion on future performance obligations, as well as a reconciliation of transitional adjustments to enable users to compare results presented under the new standard to results from prior periods.

The use of the modified retrospective approach requires an opening retained earnings adjustment on January 1, 2018 to reflect the Company's financial position at that date had the new standard been applied in prior periods, as detailed above. The Company has implemented IT solutions to ensure the information required for these new disclosures and the opening retained earnings adjustment is available upon transition. In addition, the Company has assessed policies and procedures, and internal controls, noting minimal changes arising as a result of the new standard outside of earlier recognition of revenue on percentage-of-completion projects.

Standard setters and accounting groups have released a series of papers providing industry-specific guidance on revenue recognition implementation issues. The Company has reviewed the guidance in these papers and does not anticipate significant changes to policy and disclosure decisions made previously by the Company.

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

IFRS 16 sets out the principles for the recognition, measurement, presentation, and disclosure of leases for both parties to a contract. The standard supersedes IAS 17 *Leases* and lease-related interpretations. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Application of the standard is mandatory and early adoption is permitted only if applied with IFRS 15. A lessee can apply the standard using either a full retrospective or a modified retrospective approach. In 2018, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements and will adopt the new standard effective January 1, 2019.

iv. IFRS 2 *Share-Based Payment* ("IFRS 2")

Narrow scope amendments made to IFRS 2 provide clarification on accounting for cash-settled share-based payment transactions that include a performance condition, classification of share-based payment transactions with net settlement features, and accounting for modifications of share-based payment transaction from cash-settled to equity settled. These amendments will be effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

The Company will apply the amendments beginning January 1, 2018, and does not anticipate significant 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 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 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, 2017, 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, 2017, 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, 2017, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with GAAP.

There have been no significant changes in the design of the Company's ICFR during the twelve months ended December 31, 2017 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.

Management has limited the scope of the design of DC&P and ICFR to exclude the controls, policies, and procedures of Enerflex Contract Compression, which is predominantly made up of the assets acquired from Mesa as well as rental units entered into service subsequent to the acquisition, the income statement and balance sheet of which is included in the December 31, 2017 audited consolidated financial statements of Enerflex. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109, which allows an issuer to limit its design of ICFR and DC&P to exclude the controls, policies, and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates. Enerflex intends to complete the design of DC&P and ICFR of the operations of Enerflex Contract Compression by July 31, 2018.

For the five months ended *($ Canadian millions)*		December 31, 2017
Revenue	$	16.7
EBIT		3.9

As at December 31, 2017 *($ Canadian millions)*		Mesa
Current Assets	$	8.8
Non-current assets		131.0
Current liabilities		5.0
Non-current liabilities		-

SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company announced a quarterly dividend of $0.095 per share, payable on April 5, 2018, to shareholders of record on March 8, 2018.

FORWARD-LOOKING STATEMENTS

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

All forward-looking information in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets 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. 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 and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking information will transpire or occur. 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.