QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2017

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited Interim Condensed Financial Statements for the three months ended March 31, 2017, the Company's 2016 Annual Report, the Annual Information Form for the year ended December 31, 2016, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

The financial information 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 focuses on information and key statistics from the unaudited Interim Condensed Financial Statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company, including the Annual Information Form and Management Information Circular is available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

	Three months ended March 31,			
($ Canadian thousands)		**2017**		2016
Total revenue	**$**	**354,787**	$	271,702
Gross margin		**73,302**		46,382
Selling and administrative expenses		**42,961**		47,681
Operating income (loss)		**30,341**		(1,299)
Earnings (loss) before finance costs and taxes ("EBIT")		**33,134**		(91,130)
Net earnings (loss)	**$**	**24,517**	$	(93,565)
Key Financial Performance Indicators[1]				
Bookings	**$**	**318,688**	$	65,019
Backlog	**$**	**692,230**	$	334,879
Recurring revenue as a percentage of revenue[2]		**38.2%**		35.9%
Gross margin as a percentage of revenue		**20.7%**		17.1%
EBIT (loss) gain as a percentage of revenue[2]		**3.5%**		(2.3)%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	**$**	**52,910**	$	(68,514)
Return on capital employed[3] ("ROCE")		**3.1%**		(2.2)%
Cash from operations	**$**	**1,311**	$	50,367

[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.

FIRST QUARTER OF 2017 OVERVIEW

For the three months ended March 31, 2017:

- Generated revenue of $354.8 million, a 30.6 % increase compared to $271.7 million in the first quarter of 2016, largely driven by increased Engineered Systems revenues.
- Gross margin was $73.3 million in the first quarter of 2017 compared to $46.4 million in the same period of 2016. Gross margin as a percentage of revenue also increased to 20.7% from 17.1%.
- Incurred SG&A costs of $43.0 million in the first quarter of 2017, down from $47.7 million in the same period last year. The SG&A costs have decreased period-over-period due to the effects of restructuring activities undertaken in prior periods, partially offset by higher stock-based compensation costs driven by higher share prices.
- Recognized a $2.9 million gain on disposal of PP&E, primarily related to the sale of a building in Canada.
- A goodwill impairment related to the Canada segment of $92.1 million was recognized in the first quarter of 2016.
- Reported EBIT of $33.1 million during the first quarter of 2017 compared to an EBIT loss of $91.1 million in the first quarter of 2016, driven by the improved period-over-period operational results and the goodwill impairment recognized in the first quarter of 2016.
- Recorded bookings of $318.7 million, a 390% increase compared to the $65.0 million recorded during the same period last year. Bookings in the first quarter of 2017 marked the fourth consecutive quarter where bookings increased over the same quarter from the comparative period.
- Engineered Systems backlog at March 31, 2017 was $692.2 million, a 11.4% increase compared to the December 31, 2016 backlog of $621.4 million.
- Subsequent to the end of the quarter, the Company continues to see a strong bookings trend with approximately $250 million already being recorded for the second quarter, including approximately $160 million of bookings in the Rest of World ("ROW") segment.
- Subsequent to March 31, 2017, the Company declared a quarterly dividend of $0.085 per share, payable on July 6, 2017, to shareholders on record on May 18, 2017.

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 have been adjusted for presentation purposes relate generally to two categories: 1) impairment or gains on assets; and 2) restructuring activities. Exclusion of these items should allow for the proper evaluation of ongoing, normal operations of the Company.

($ Canadian thousands)								
Three months ended March 31, 2017		**Total**		**Canada**		**USA**		**ROW**
Reported EBIT (loss)	**$**	**33,134**	**$**	**1,250**	**$**	**22,629**	**$**	**9,255**
Restructuring costs in COGS and SG&A		**-**		**-**		**-**		**-**
Gain on disposal of PP&E		**(2,940)**		**(2,935)**		**15**		**(20)**
Goodwill impairment		**-**		**-**		**-**		**-**
Adjusted EBIT	**$**	**30,194**	**$**	**(1,685)**	**$**	**22,644**	**$**	**9,235**
Depreciation and amortization		**19,776**		**3,520**		**2,866**		**13,390**
Adjusted EBITDA	**$**	**49,970**	**$**	**1,835**	**$**	**25,510**	**$**	**22,625**

($ Canadian thousands)								
Three months ended March 31, 2016		Total		Canada		USA		ROW
Reported EBIT (loss)	$	(91,130)	$	(101,217)	$	7,999	$	2,088
Restructuring costs in COGS and SG&A		6,226		5,383		536		307
(Gain) loss on disposal of PP&E		(7)		(24)		13		4
Goodwill impairment		92,092		92,092		-		-
Adjusted EBIT	$	7,181	$	(3,766)	$	8,548	$	2,399
Depreciation and amortization		22,616		4,044		3,876		14,696
Adjusted EBITDA	$	29,797	$	278	$	12,424	$	17,095

The adjusted EBIT and adjusted EBITDA for the three months ended March 31, 2017 have both improved over the same period from the prior year. 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 first quarter of 2017 includes approximately $2.0 million of costs related to ongoing arbitration proceedings with the Oman Oil Exploration and Production LLC ("OOCEP"). The first quarter of 2016 included approximately $2.6 million of arbitration related costs.

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 March 31,	
($ Canadian thousands)	**2017**	2016
Canada	**$ 153,235**	$ 28,836
USA	**164,489**	34,177
Rest of World	**964**	2,006
Total bookings	**$ 318,688**	$ 65,019

Backlog	**March 31,**	December 31,
($ Canadian thousands)	**2017**	2016
Canada	**$ 265,137**	$ 167,260
USA	**389,348**	390,399
Rest of World	**37,745**	63,738
Total backlog	**$ 692,230**	$ 621,397

Bookings were higher in the first quarter of 2017 compared to the same period of 2016 due to improved bookings in the Canada and USA segments, partially offset by decreased bookings in Rest of World. Enerflex continued to see the trend of improved bookings experienced in the later half of 2016 as customers proceeded with projects in Canada and the USA. Even with the improved bookings, awarded margins continue to be under pressure from competition for work. Bookings for the Rest of World segment experience longer lead times from bid to award, when compared to Canada or the USA and subsequent to the quarter, we have recorded approximately $160 million of new customer bookings in the Middle East and Latin America. Enerflex also signed a rental contract renewal that runs for five years for 14,000 horsepower.

The movement in exchange rates resulted in a decrease of $3.4 million on U.S. dollar denominated bookings during the first quarter of 2017 compared to a decrease of $13.3 million for the first quarter of 2016.

The Company remains cautiously optimistic that further stability in commodity prices will continue to allow customers to increase investments.

SEGMENTED RESULTS

Canada Segment Results

	Three months ended March 31,			
($ Canadian thousands)		**2017**		2016
Segment revenue	**$**	**77,031**	$	62,101
Intersegment revenue		**(693)**		(950)
Revenue	**$**	**76,338**	$	61,151
Revenue – Engineered Systems	**$**	**55,358**	$	44,586
Revenue – Service	**$**	**17,196**	$	13,282
Revenue – Rental	**$**	**3,784**	$	3,283
Operating loss	**$**	**(1,538)**	$	(11,403)
EBIT[1]	**$**	**1,250**	$	(101,217)
EBITDA[1]	**$**	**4,770**	$	(97,173)
Segment revenue as a % of total revenue		**21.5%**		22.5%
Recurring revenue as a % of segment revenue		**27.5%**		27.1%
Operating loss as a % of segment revenue		**(2.0)%**		(18.6)%
EBIT as a % of segment revenue		**1.6%**		(165.5)%
EBITDA as a % of segment revenue		**6.2%**		(158.9)%

[1] Inclusive of goodwill impairment of $92.1 million recorded during the first quarter of 2016.

The Canada segment is sensitive to capital expenditure budgets of oil and natural gas producers operating in Canada, which continue to be impacted by the significant decline in commodity prices. However, the recent stability in pricing has generated improved revenues as producers increased capital expenditures.

The increase in revenue of $15.2 million for the three months ended March 31, 2017, compared to the same period of 2016, was attributable to higher revenue across all product lines, largely driven by increased customer demand with the higher levels of confidence in the economic environment in 2017. Improved revenue in the Engineered Services product line is due to increased booking activity seen in the back half of 2016. Additionally, there were also some higher levels of parts sales during the first quarter that were included in the Service product line.

Operating loss for the first quarter of 2017 improved by $9.9 million, primarily due to increased revenues and lower SG&A costs as a result of previously undertaken restructuring activities.

During the first quarter of 2017, the Company sold a building for a gain of $2.4 million. For the first three months of 2016, EBIT was unfavorably impacted by $92.1 million of goodwill impairment and $5.4 million of restructuring costs.

USA Segment Results

	Three months ended March 31,			
($ Canadian thousands)		**2017**		2016
Segment revenue	**$**	**203,590**	$	116,899
Intersegment revenue		**(10,410)**		(7,079)
Revenue	**$**	**193,180**	$	109,820
Revenue – Engineered Systems	**$**	**165,540**	$	77,514
Revenue – Service	**$**	**25,232**	$	28,561
Revenue – Rental	**$**	**2,408**	$	3,745
Operating income	**$**	**22,644**	$	8,012
EBIT	**$**	**22,629**	$	7,999
EBITDA	**$**	**25,495**	$	11,875
Segment revenue as a % of total revenue		**54.4%**		40.4%
Recurring revenue as a % of segment revenue		**14.3%**		29.4%
Operating income as a % of segment revenue		**11.7%**		7.3%
EBIT as a % of segment revenue		**11.7%**		7.3%
EBITDA as a % of segment revenue		**13.2%**		10.8%

The increase in revenue of $83.4 million in the first quarter of 2017 compared to the same period of 2016 is the result of increased Engineered Systems revenue, partially offset by lower Service and Rental revenue. Engineered Systems revenue increased due to the realization of the increased bookings in the back half of 2016 as compared to the back half of 2015. Service revenue was lower as a result of deferred maintenance, while Rental revenue was lower due to weaker utilization and rental rates.

Operating income increased by $14.6 million during the first quarter of 2017 due to higher revenues, higher gross margin and decreased SG&A expenses. Gross margin increased primarily as a result of higher revenues, driven by project margin improvements and improved overhead absorption. SG&A expenses decreased due to lower compensation expense on lower headcount.

Rest of World Segment Results

		Three months ended March 31,		
($ Canadian thousands)		**2017**		2016
Segment revenue	**$**	**85,532**	$	107,895
Intersegment revenue		**(263)**		(7,164)
Revenue	**$**	**85,269**	$	100,731
Revenue – Engineered Systems	**$**	**26,957**	$	35,244
Revenue – Service	**$**	**28,491**	$	30,231
Revenue – Rental	**$**	**29,821**	$	35,256
Operating income	**$**	**9,235**	$	2,092
EBIT	**$**	**9,255**	$	2,088
EBITDA	**$**	**22,645**	$	16,784
Segment revenue as a % of total revenue		**24.0%**		37.1%
Recurring revenue as a % of segment revenue		**68.4%**		65.0%
Operating income as a % of segment revenue		**10.8%**		2.1%
EBIT as a % of segment revenue		**10.9%**		2.1%
EBITDA as a % of segment revenue		**26.6%**		16.7%

Rest of World revenue decreased by $15.5 million in the first quarter across all product lines. Engineered Systems revenue was down due to the completion of some larger projects in 2016, largely in the Middle East and Argentina. Service revenue remained under pressure with lower service activity in Latin America and Australia, as well as reduced parts sales in Australia and Asia, partially offset by higher activity in the Middle East / Africa ("MEA") region. Rental revenues have also decreased due to lower utilization and rental rates in Mexico, and slower economic conditions in some of the markets this segment serves.

While revenues decreased, operating income increased by $7.1 million in the first quarter of 2017 compared to the same period of 2016 as a result of improved gross margin and lower SG&A expenses. The increase in gross margin was the result of an increase in higher margin Service and Rental revenues in the MEA region. SG&A expenses decreased due to lower compensation expense on reduced headcount. Operating income was also negatively impacted during Q1 2016 by a provision for a warranty dispute and OOCEP related arbitration costs.

INCOME TAXES

Income tax expense totaled $5.9 million or 19.3% of earnings before tax for the three months ended March 31, 2017 compared to income tax recovery of $1.8 million or 57.0% of earnings before tax excluding the goodwill impairment in the same period of 2016. Income tax expense 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 effect of the exchange rate fluctuations on tax bases in foreign jurisdictions and the mix of earnings taxed in foreign jurisdictions.

OUTLOOK

The decline in global commodity prices continues to negatively impact demand for the Company's products and services. Lower commodity prices have led customers to curtail investments in large green-field oil and natural gas developments which in turn has negatively impacted demand for the Engineered Systems product line.

That being said, the stabilization of commodity prices in the second half of 2016 led to increased enquiries and continued strength in bookings in the first quarter of 2017, particularly in the Canada and USA segments. The improved bookings trend, which began in the third quarter of 2016, continued through first quarter of 2017. The Company is cautiously optimistic that further stability or improvement in commodity prices may cause customers to continue to increase investment, which should translate to further demand for the Company's products and services.

Enerflex's financial performance also continues to benefit from strategic decisions to focus on the recurring revenue stream derived from new and existing long-term rental and service contract progress, and develop a geographically diversified business. Enerflex will look to continue to preserve awarded gross margins and to aggressively manage SG&A expenses. Steps taken during 2015 and 2016 have allowed a greater focus on key market opportunities and resulted in a lower headcount, which led to ongoing material savings.

Outlook by Segment

Canada

Even with the improvement of commodity prices, the Canadian market has not fully recovered. Management expects the Canada segment to continue to face headwinds until there is further improvement in commodity prices, which will allow customers in the region to expand their businesses. While there have been strong bookings in the back half of 2016 and the first quarter of 2017, customers remain cautious about projects until there is greater clarity surrounding the commodity price environment.

USA

The recent performance of the USA segment has been largely dependent on activity in liquids-rich U.S. gas basins, which gave rise to new orders for compression and process equipment for this region. The recent partial recovery in oil, natural gas, and NGL prices have led to an improvement in enquiries and bookings in the USA segment. The improvement in commodity prices caused some customers to proceed with investment in the sector and Enerflex is cautiously optimistic that further stability in commodity prices will continue to drive increased enquiries and bookings that the Company experienced in the first quarter through the remainder of 2017.

Rest of World

Enerflex remains cautiously optimistic about the outlook in the Latin America region. The Company expects Argentina will see additional growth, where the continuing development of the Vaca Muerta shale play could in the short- to medium-term generate more material opportunities for the Company's products and services. In Mexico, Enerflex sees more medium- to long-term opportunities developing as a result of the on-going Energy Reform. In Brazil, the Company is expecting a more stable environment and an increased interest in natural gas-fueled projects as a means to reduce dependency on hydroelectric power. This interest, coupled with the associated gas expected from pre-salt oil production, presents interesting opportunities for surface facilities in Brazil. Additionally, Enerflex expects its new foothold in Bolivia and infrastructure developments in Colombia will result in an increased Enerflex presence in these countries. Overall the Company will continue to focus on securing additional build-own-operate-maintain ("BOOM") and integrated turnkey projects and expanding the after-market service business.

Within the MEA region, three large rental projects have increased the rental fleet in the region to over 100,000 horsepower, and will continue to contribute to results in 2017 and beyond. As noted in the discussion on Engineering Systems bookings and backlog, the ROW segment has achieved approximately $160 million in bookings to date in the second quarter.

ENERFLEX STRATEGY

Enerflex's vision is "Transforming natural gas to meet the world's energy needs". Enerflex'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 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 liquefied natural gas ("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 the development of LNG infrastructure in the U.S. In addition, the focus has been on rationalizing the Service business across the region by reducing the number of service branches but still maintaining the capability to service customers across the U.S.

Enerflex has focused its international efforts 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 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 for customers, with early successes, primarily in Argentina, while looking at opportunities throughout the region. In Mexico, the Company holds a large rental fleet with associated long-term 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% EBIT margin. In addition, the Company is focused on expanding the diversification of its product lines, with a goal to achieve 35%-40% recurring revenue.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue[1]	Net earnings[1]	Earnings per share – basic[1]	Earnings per share – diluted[1]
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)
December 31, 2015	358,548	(33,423)	(0.42)	(0.42)
September 30, 2015	425,242	31,938	0.40	0.40
June 30, 2015	389,721	26,827	0.34	0.34

[1] Amounts presented are from continuing operations.

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 (cash) debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net earnings or any other measure of performance under GAAP. The reconciliation of these non-GAAP measures to the most directly comparable measure calculated in accordance with GAAP is provided below where appropriate. Bookings and backlog do not have a directly comparable GAAP measure.

		Three months ended March 31,		
($ Canadian thousands)		**2017**		2016
EBITDA				
Earnings (loss) before finance costs and taxes	**$**	**33,134**	$	(91,130)
Depreciation and amortization		**19,776**		22,616
EBITDA	**$**	**52,910**	$	(68,514)
Recurring Revenue				
Service	**$**	**70,919**	$	72,074
Rental		**36,013**		42,284
Total Recurring Revenue	**$**	**106,932**	$	114,358
ROCE				
Trailing 12-month EBIT	**$**	**42,792**	$	(33,238)
Capital Employed - beginning of period				
Net Debt	**$**	**226,402**	$	420,559
Shareholders' equity		**1,117,627**		1,158,040
	$	**1,344,029**	$	1,578,599
Capital Employed - end of period				
Net Debt	**$**	**227,650**	$	379,604
Shareholders' equity		**1,139,668**		1,015,510
	$	**1,367,318**	$	1,395,114
Average Capital Employed[1]	**$**	**1,387,704**	$	1,520,318
Return on Capital Employed		**3.1%**		(2.2)%

[1] Based on a trailing five-quarter average.

FINANCIAL POSITION

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

($ Canadian millions)	Increase (Decrease)	Explanation
Working capital	$29.3	The increase in working capital reflects the higher earnings and activity levels in 2017. Accounts receivable, inventory, accounts payable and deferred revenues have all increased.
Rental equipment	$ (18.6)	The decrease in rental assets is primarily due to depreciation and a weakening U.S. dollar relative to the Canadian dollar when comparing the March 31, 2017 exchange rate to December 31, 2016.
Total assets	$117.7	The increase in total assets is primarily related to the increase in accounts receivable, partially offset by fixed asset depreciation outpacing capital expenditures, 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	$(9.2)	The decrease in long-term debt is the continued repayment of drawing on the Bank Facility during 2017. In addition, long-term debt decreased due to a stronger Canadian dollar, which impacted the revaluation of U.S. dollar denominated debt.
Shareholders' equity before non-controlling interest	$22.6	Shareholders' equity before non-controlling interest increased due to net earnings of $24.4 million, a $3.0 million unrealized gain on translation of foreign operations and $2.7 million of stock option costs, offset by dividends of $7.5 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 $31.0 million in milestone payments due from OOCEP are overdue and remain unpaid. Enerflex is unable to predict when the arbitration will be resolved.

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 March 31, 2017, the Company held cash and cash equivalents of $157.2 million and had cash drawings of $349.2 million against the Bank Facility, leaving it with access to $359.6 million for future drawings. The Company continues to meet its Bank Facility covenant requirements with a net debt to EBITDA ratio of less than 1.10:1 compared to the maximum ratio of 3:1.

Summarized Statements of Cash Flow

($ Canadian thousands)	Three months ended March 31, **2017**	2016
Cash, beginning of period	**$ 167,561**	$ 158,081
Cash (used in) provided by:		
Operating activities	**1,311**	50,367
Investing activities	**2,984**	(561)
Financing activities	**(14,724)**	(45,560)
Exchange rate changes on foreign currency cash	**23**	(2,072)
Cash, end of period	**$ 157,155**	$ 160,255

Operating Activities

For the three months ended March 31, 2017, as compared with the same period in 2016, cash provided by operating activities decreased primarily due changes in non-cash working capital, offset by improvements in overall results from operations.

Investing Activities

For the three months ended March 31, 2017 cash provided by investing activities increased due to decreased capital expenditures on rental assets and increased proceeds on the disposal of both rental assets and property, plant and equipment.

Financing Activities

For the three months ended March 31, 2017, cash used in financing activities decreased primarily due to lower repayments of long-term debt.

CAPITAL RESOURCES

On April 30, 2017, Enerflex had 88,522,898 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. During the first quarter of 2017, the Company declared a quarterly dividend of $0.085 per share.

At March 31, 2017, the Company had drawn $349.2 million against the Bank Facility (December 31, 2016 - $357.8 million). The weighted average interest rate on the Bank Facility at March 31, 2017 was 2.4% (December 31, 2016 – 2.4%).

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

($ Canadian thousands)	**March 31, 2017**	December 31, 2016
Drawings on Bank Facility	**$ 349,169**	$ 357,829
Notes due June 22, 2021	**40,000**	40,000
Deferred transaction costs	**(4,364)**	(3,866)
	$ 384,805	$ 393,963

At March 31, 2017, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $389.2 million.

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 will be effective for annual periods beginning on or after January 1, 2018.

During the year ended December 31, 2016, an initial assessment was completed on IFRS 9. Overall, the Company expects no significant impact on its statement of financial position or equity. The classification and measurement, and hedge accounting components of IFRS 9 are expected to have nominal impacts. However, 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) of the Annual Consolidated Financial Statements. IFRS 9 requires the use of an expected credit loss model for its trade receivables. This change is anticipated to shift provisioning on trade receivables to earlier in the process, but given the short term nature of these receivables, the Company does not expect these changes will have a material financial impact.

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. Application of the standard is mandatory and early adoption is permitted.

The new standard will be adopted on the effective date using the modified retrospective approach. The Company continues to assess the impacts of IFRS 15, including reviewing a representative selection of 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 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 construction contracts, as defined in Note 3(s) of the Annual Consolidated Financial Statements, and to presentation and disclosure requirements.

Under IFRS 15, it is anticipated that 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 able to estimate its progress. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require revenue to be recognized if any question exists regarding the final consideration to be received. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other disclosures, such as discussions on future performance obligations, which are specific to the new standard. The Company is assessing the impact of these new disclosures on policies and procedures, IT systems, and internal controls.

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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 2017, the Company will complete an assessment detailing the potential impacts of IFRS 16 on its consolidated financial statements.

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

IFRS 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

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 expects to apply the amendments beginning January 1, 2018, and is currently assessing the impact of the amendments to the standard on the Company's Consolidated Financial Statements.

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying Interim Condensed 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 Interim Condensed Financial Statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the three month period ended March 31, 2017 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

SUBSEQUENT EVENTS

Subsequent to March 31, 2017, the Company announced a quarterly dividend of $0.085 per share, payable on July 6, 2017, to shareholders of record on May 18, 2017.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements, which are based on certain assumptions and analyses made by the Company derived from its experience and perceptions. Certain statements containing words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe" and similar expressions, statements that are based on current expectations and estimates about the markets in which the Company operates, and statements of the Company's belief, intentions and expectations about developments, results and events, which will or may occur in the future, constitute "forward-looking statements". Any statements, other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation: statements with respect 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.

The forward-looking statements in this MD&A, primarily in the Enerflex Strategy and Outlook for Markets sections, are subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company's operations. The critical risks, uncertainties, and assumptions relating to these sections, include, 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; and political unrest. As such, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits, including the amount of proceeds or dividends the Company and its shareholders, will derive therefrom. The forward-looking statements included in this MD&A are 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 statements, whether as a result of new information, future events or otherwise.

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		March 31, 2017		December 31, 2016
Assets				
Current assets				
Cash and cash equivalents	$	**157,155**	$	167,561
Accounts receivable		**449,840**		310,625
Inventories (Note 3)		**170,122**		163,943
Income taxes receivable		**4,392**		4,861
Derivative financial instruments (Note 10)		**183**		137
Other current assets		**6,876**		6,693
Total current assets		**788,568**		653,820
Property, plant and equipment (Note 4)		**119,595**		121,692
Rental equipment (Note 4)		**369,515**		388,092
Deferred tax assets		**59,926**		55,934
Other assets		**53,190**		54,042
Intangible assets		**33,746**		36,537
Goodwill (Note 5)		**575,143**		571,826
Total assets	$	**1,999,683**	$	1,881,943
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	$	**268,379**	$	205,872
Provisions (Note 6)		**19,695**		21,171
Income taxes payable		**10,565**		4,228
Deferred revenues		**120,045**		82,086
Derivative financial instruments (Note 10)		**283**		194
Total current liabilities		**418,967**		313,551
Long-term debt (Note 7)		**384,805**		393,963
Decommissioning liability		**6,815**		8,994
Deferred revenues		**263**		294
Deferred tax liabilities		**33,528**		34,335
Other liabilities		**15,637**		13,179
Total liabilities	$	**860,015**	$	764,316
Shareholders' equity				
Share capital	$	**356,655**	$	353,263
Contributed surplus		**652,837**		653,503
Retained deficit		**(109)**		(17,000)
Accumulated other comprehensive income		**128,238**		125,224
Total shareholders' equity before non-controlling interest		**1,137,621**		1,114,990
Non-controlling interest		**2,047**		2,637
Total shareholders' equity and non-controlling interest		**1,139,668**		1,117,627
Total liabilities and shareholders' equity	$	**1,999,683**	$	1,881,943

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

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

($ Canadian thousands, except per share amounts)		Three months ended March 31, **2017**		2016
Revenue (Note 12)	**$**	**354,787**	$	271,702
Cost of goods sold		**281,485**		225,320
Gross margin		**73,302**		46,382
Selling and administrative expenses		**42,961**		47,681
Operating income (loss)		**30,341**		(1,299)
Gain on disposal of property, plant and equipment		**2,940**		7
Equity (loss) earnings from associate and joint venture		**(147)**		2,254
Impairment of goodwill (Note 5)		**-**		(92,092)
Earnings (loss) before finance costs and income taxes		**33,134**		(91,130)
Net finance costs		**2,754**		4,182
Earnings (loss) before income taxes		**30,380**		(95,312)
Income taxes (Note 8)		**5,863**		(1,835)
Net earnings (loss) from continuing operations	**$**	**24,517**	$	(93,477)
Earnings (loss) from discontinued operations (Note 2)		**-**		(88)
Net earnings (loss)	**$**	**24,517**	$	(93,565)
Net earnings (loss) attributable to:				
Controlling interest	**$**	**24,407**	$	(93,270)
Non-controlling interest		**110**		(295)
	$	**24,517**	$	(93,565)
Earnings (loss) per share – basic				
Continuing operations	**$**	**0.28**	$	(1.18)
Discontinued operations	**$**	**-**	$	(0.00)
Earnings (loss) per share – diluted				
Continuing operations	**$**	**0.28**	$	(1.18)
Discontinued operations	**$**	**-**	$	(0.00)
Weighted average number of shares – basic		**88,353,078**		79,178,075
Weighted average number of shares – diluted		**89,040,739**		79,182,222

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)	Three months ended March 31, **2017**	2016
Net earnings (loss)	**$ 24,517**	$ (93,565)
Other comprehensive income (loss):		
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:		
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	**(3)**	(219)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**260**	1,016
Unrealized gain on translation of foreign denominated debt	**2,421**	21,395
Unrealized loss on translation of financial statements of foreign operations	**(364)**	(65,018)
Other comprehensive income (loss)	**$ 2,314**	$ (42,826)
Total comprehensive income (loss)	**$ 26,831**	$ (136,391)
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ 3,014**	$ (41,234)
Non-controlling interest	**(700)**	(1,592)
	$ 2,314	$ (42,826)

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF CASH FLOWS *(unaudited)*

($ Canadian thousands)		Three months ended March 31, 2017		2016
Operating Activities				
Net earnings (loss)	**$**	**24,517**	$	(93,565)
Items not requiring cash and cash equivalents:				
Depreciation and amortization		**19,776**		22,616
Impairment of goodwill		**-**		92,092
Equity loss (earnings) from associate and joint venture		**147**		(2,254)
Deferred income taxes (Note 8)		**(5,858)**		(6,600)
Share-based compensation expense (recovery) (Note 9)		**4,034**		(724)
Gain on sale of property, plant and equipment		**(2,940)**		(23)
		39,676		11,542
Net change in non-cash working capital and other (Note 11)		**(38,365)**		38,825
Cash provided by operating activities	**$**	**1,311**	$	50,367
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)		**(1,105)**		(1,309)
Rental equipment (Note 4)		**(979)**		(9,552)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)		**3,695**		174
Rental equipment (Note 4)		**1,941**		537
Change in other assets		**(568)**		9,589
Cash provided by (used in) investing activities	**$**	**2,984**	$	(561)
Financing Activities				
Repayment of long-term debt	**$**	**(9,527)**	$	(39,223)
Dividends		**(7,497)**		(6,726)
Stock option exercises		**2,300**		389
Cash used in financing activities	**$**	**(14,724)**	$	(45,560)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$**	**23**	$	(2,072)
(Decrease) increase in cash and cash equivalents		**(10,406)**		2,174
Cash and cash equivalents, beginning of period		**167,561**		158,081
Cash and cash equivalents, end of period	**$**	**157,155**	$	160,255

See accompanying Notes to the Interim Condensed Financial Statements.

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2016	$ 238,580	$ 653,120	$ 115,397	$ 149,124	$ (2,155)	$ 146,969	$ 1,154,066	$ 3,974	$ 1,158,040
Net earnings (loss)	-	-	(93,270)	-	-	-	(93,270)	(295)	(93,565)
Other comprehensive income (loss)	-	-	-	(42,031)	797	(41,234)	(41,234)	(1,592)	(42,826)
Effect of stock option plans	573	19	-	-	-	-	592	-	592
Dividends	-	-	(6,731)	-	-	-	(6,731)	-	(6,731)
At March 31, 2016	$ 239,153	$ 653,139	$ 15,396	$ 107,093	$ (1,358)	$ 105,735	$ 1,013,423	$ 2,087	$ 1,015,510
At January 1, 2017	$ 353,263	$ 653,503	$ (17,000)	$ 126,258	$ (1,034)	$ 125,224	$ 1,114,990	$ 2,637	$ 1,117,627
Net earnings (loss)	-	-	24,407	-	-	-	24,407	110	24,517
Other comprehensive income (loss)	-	-	-	2,757	257	3,014	3,014	(700)	2,314
Effect of stock option plans	3,392	(666)	-	-	-	-	2,726	-	2,726
Dividends	-	-	(7,516)	-	-	-	(7,516)	-	(7,516)
At March 31, 2017	**$ 356,655**	**$ 652,837**	**$ (109)**	**$ 129,015**	**$ (777)**	**$ 128,238**	**$ 1,137,621**	**$ 2,047**	**$ 1,139,668**

See accompanying Notes to the Interim Condensed Financial Statements.

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

Note 1. Summary of Significant Accounting Policies

(a) Statement of Compliance

These Interim Condensed Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These Interim Condensed Financial Statements were approved and authorized for issue by the Board of Directors on May 4, 2017.

(b) Basis of Presentation and Measurement

These Interim Condensed Financial Statements for the three months ended March 31, 2017 and 2016 were prepared in accordance with IAS 34 and do not include all the disclosures included in the Annual Consolidated Financial Statements for the year ended December 31, 2016. Accordingly, these Interim Condensed Financial Statements should be read in conjunction with the Annual Consolidated Financial Statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

The Interim Condensed Financial Statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the Annual Consolidated Financial Statements for the year ended December 31, 2016.

(c) New Policies, Standards, Interpretations and Amendments

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

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 will be effective for annual periods beginning on or after January 1, 2018.

During the year ended December 31, 2016, an initial assessment was completed on IFRS 9. Overall, the Company expects no significant impact on its statement of financial position or equity. The classification and measurement, and hedge accounting components of IFRS 9 are expected to have nominal impacts. However, 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) of the Annual Consolidated Financial Statements. IFRS 9 requires the use of an expected credit loss model for its trade receivables. This change is anticipated to shift provisioning on trade receivables to earlier in the process, but given the short term nature of these receivables, the Company does not expect these changes will have a material financial impact.

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Under IFRS 15, it is anticipated that 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. The existing standard, IAS 11, allows for zero-margin revenue recognition when a final outcome cannot be estimated but does not require revenue to be recognized if any question exists regarding the final consideration to be received. Under the Company's existing policies, revenue recognition begins only when the outcome can be estimated reliably.

IFRS 15 contains presentation and disclosure requirements which are more expansive than the current standards. This includes expanded detail on current disclosures and other disclosures, such as discussions on future performance obligations, which are specific to the new standard. The Company is assessing the impact of these new disclosures on policies and procedures, IT systems, and internal controls.

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IFRS 2 requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

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 expects to apply the amendments beginning January 1, 2018, and is currently assessing the impact of the amendments to the standard on the Company's Consolidated Financial Statements.

Note 2. Assets Held for Sale and Discontinued Operations

Discontinued Operations

On February 3, 2015, the Company announced its intention to close the Production and Processing ("P&P") manufacturing facility in Nisku, Alberta and exit the oil sands modular fabrication business. The business unit completed the fabrication of projects at the end of June 2015, and was subsequently shut down. The assets and liabilities of the P&P business unit were disposed, with the exception of a single facility and the related equipment of that facility.

At December 31, 2016 the Company had determined that it was no longer highly probable that the remaining facility would be sold within the required timeframe, and therefore the facility and related assets no longer met the definition of assets held for sale. The assets and liabilities were reclassified to continuing operations, accordingly.

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

	Three months ended March 31,	
	2017	2016
Revenues	**$ -**	$ -
Expenses	**-**	120
Earnings (loss) before income taxes	**-**	(120)
Income tax expense (recoveries)	**-**	(32)
Earnings (loss) from discontinued operations	**$ -**	$ (88)

The following table summarizes cash from discontinued operations:

	Three months ended March 31,	
	2017	2016
Cash used in operating activities	**$ -**	$ (215)
Cash provided by investing activities	**-**	215
Net cash flow for the period	**$ -**	$ -

Note 3. Inventories

Inventories consisted of the following:

	March 31, 2017	December 31, 2016
Equipment	**$ 12,427**	$ 12,755
Repair and distribution parts	**43,242**	46,762
Direct materials	**51,166**	57,318
Work-in-process	**63,287**	47,108
Total inventories	**$ 170,122**	$ 163,943

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three months ended March 31, 2017 was $281.5 million (March 31, 2016 – $225.3 million). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the interim condensed statements of earnings (loss) and included in cost of goods sold for the three months ended March 31, 2017 was $1.0 million (March 31, 2016 – $3.0 million).

Note 4. Property, Plant and Equipment and Rental Equipment

During the three months ended March 31, 2017, the Company acquired $1.1 million in property, plant and equipment (March 31, 2016 – $1.3 million) and $1.0 million in rental equipment (March 31, 2016 – $9.6 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2017 was $16.9 million (March 31, 2016 – $20.3 million), of which $15.6 million was included in cost of goods sold and $1.3 million was included in selling and administrative expenses (March 31, 2016 – $18.8 million and $1.5 million, respectively).

Impairment of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2017 was nil (March 31, 2016 – $0.1 million).

Note 5. Goodwill and Impairment Review of Goodwill

	March 31, 2017	December 31, 2016
Balance, January 1	**$ 571,826**	$ 748,604
Impairment	**-**	(160,894)
Currency translation effects	**3,317**	(15,884)
Closing balance	**$ 575,143**	$ 571,826

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

Note 6. Provisions

		March 31, 2017		December 31, 2016
Warranty provision	**$**	**13,412**	$	13,471
Restructuring provision		**478**		1,418
Legal provision		**-**		47
Onerous lease provision		**5,805**		6,235
	$	**19,695**	$	21,171

The Company previously entered into non-cancellable leases for several office spaces and facilities in Canada and Australia. Due to previous business restructuring, the Company ceased using these premises. Onerous lease provision was recognized in prior years, representing future payments, net of anticipated sub-lease recoveries. The balance of the provision as of March 31, 2017 is $0.7 million for Canada and $5.1 million for Australia (December 31, 2016 - $0.9 million and $5.3 million, respectively).

Note 7. Long-Term Debt

In March 2017, the Company entered into an agreement with its lenders to amend the syndicated revolving credit facility (“Bank Facility”). The amended agreement served to move the maturity date of the Bank Facility from June 30, 2019 to June 30, 2021 (the “Maturity Date”). The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $100.0 million at the request of the Company, subject to the lenders’ consent. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

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

		March 31, 2017		December 31, 2016
Drawings on Bank Facility	**$**	**349,169**	$	357,829
Notes due June 22, 2021		**40,000**		40,000
Deferred transaction costs		**(4,364)**		(3,866)
	$	**384,805**	$	393,963

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2017 was 2.4 percent (December 31, 2016 – 2.4 percent). At March 31, 2017, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $389.2 million.

Note 8. Income Taxes

(a) Income Tax Recognized in Net Earnings

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

			Three months ended March 31,	
		2017		2016
Current income taxes	**$**	**11,721**	$	4,733
Deferred income taxes		**(5,858)**		(6,568)
	$	**5,863**	$	(1,835)

(b) Reconciliation of Tax Expense

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

	Three months ended March 31,			
		2017		2016
Earnings before income taxes from continuing operations	**$**	**30,380**	$	(95,312)
Canadian statutory rate		**27.0%**		27.0%
Expected income tax provision	**$**	**8,203**	$	(25,734)
Add (deduct):				
Impairment of goodwill not deductible for tax purposes		**-**		24,865
Exchange rate effects on tax basis		**(2,890)**		4,424
Earnings taxed in foreign jurisdictions		**596**		(4,913)
(Income) expenses not (taxable) deductible for tax purposes		**(166)**		82
Impact of accounting for associates and joint ventures		**10**		(528)
Other		**110**		(31)
Income tax expense (recovery) from continuing operations	**$**	**5,863**	$	(1,835)

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

The applicable tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2016 – 15.0 percent) and the provincial income tax rate of 12.0 percent (2016 – 12.0 percent).

Note 9. Share-Based Compensation

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

	Three months ended March 31,			
		2017		2016
Equity settled share-based payments	**$**	**423**	$	204
Cash settled share-based payments		**3,611**		(928)
Share-based compensation expense (recovery)	**$**	**4,034**	$	(724)

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

The Company did not grant any PSUs, DSUs, RSUs, SARs or CPT to its employees during the first three months of 2017. The RSU, PSU, and DSU holders had dividends credited to their account during the period. The carrying amount of the liability relating to cash settled share-based payments at March 31, 2017 included in current liabilities was $4.4 million (December 31, 2016 – $3.1 million) and in other long-term liabilities was $13.2 million (December 31, 2016 – $10.8 million).

(a) Equity-Settled Share-Based Payments

	March 31, 2017			December 31, 2016		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**2,999,757**	**$**	**13.47**	2,776,268	$	13.47
Granted	**-**		**-**	599,428		13.27
Exercised [1]	**(181,018)**		**12.72**	(187,576)		12.17
Forfeited	**-**		**-**	(53,477)		12.96
Expired	**(100)**		**12.96**	(134,886)		14.61
Options outstanding, end of period	**2,818,639**	**$**	**13.51**	2,999,757	$	13.47
Options exercisable, end of period	**1,174,745**	**$**	**13.29**	1,363,363	$	13.22

[1] The weighted average share price of options at the date of exercise for the three months ended March 31, 2017 was $17.84 (March 31, 2016 - $11.86).

The following table summarizes options outstanding and exercisable at March 31, 2017:

	Options Outstanding				**Options Exercisable**			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.04 - $11.76	1,161,875	4.13	$	11.67	541,254	2.74	$	11.65
$11.77 - $13.80	928,829	4.93		12.76	266,846	2.37		11.83
$13.81 - $20.75	727,935	3.84		17.42	366,645	3.74		16.78
Total	**2,818,639**	**4.32**	**$**	**13.51**	**1,174,745**	**2.97**	**$**	**13.29**

b) Cash-Settled Share-Based Payments

During the three months ended March 31, 2017, directors' fees and executive bonuses elected to be received in DSUs totalled $0.5 million (March 31, 2016 – $0.7 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2017	508,295	$	13.29
Granted	30,109		18.02
In lieu of dividends	2,519		17.12
DSUs outstanding, March 31, 2017	**540,923**	**$**	**13.57**

Note 10. Financial Instruments

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2017 were designated in the same manner as they were at December 31, 2016. Accordingly, with the exception of the long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at March 31, 2017 was $40.0 million and $43.9 million, respectively (December 31, 2016 – $40.0 million and $42.1 million, respectively). The fair value of these Notes at March 31, 2017 was determined on a discounted cash flow basis with a weighted average discount rate of 3.95 percent (December 31, 2016 – 4.79 percent).

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at March 31, 2017:

		Notional amount	Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	**24,831**	April 2017 – February 2018
Sales contracts	USD	**(5,014)**	April 2017 – February 2018
Great Britain Pound denominated contracts			
Sales contracts	EUR	**(303)**	April 2017 – August 2017

At March 31, 2017, the fair value of derivative financial instruments classified as financial assets was $0.2 million, and as financial liabilities was $0.3 million (December 31, 2016 – $0.1 million and $0.2 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of USD $211.7 million in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2017. The following table shows the sensitivity to a 5 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound.

Canadian dollar weakens by 5 percent	USD	AUD	GBP
Earnings from foreign operations			
Earnings (loss) before income taxes	**$ 1,537**	**$ (27)**	**$ (14)**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 18,633**	**$ 1,058**	**$ 241**
Financial instruments held in Canadian operations			
Earnings before income taxes	**$ (4,911)**	**$ -**	**$ -**

Interest Rate Risk

The Company's liabilities include long-term debt subject to fluctuations in interest rates. Notes outstanding at March 31, 2017 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Bank Facility, however, is subject to changes in market interest rates.

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

Under the interest rate swap agreement, Enerflex pays a fixed rate of 0.785 percent per annum plus the applicable credit spread. The interest rate swap agreement has an aggregate notional principal amount of USD $70.0 million. The fair value of the interest rate swap arrangement is the difference between the forward interest rates and the discounted contract rate. As at March 31, 2017, the mark-to-market of the interest rate swap was nominal.

For each 1 percent change in the rate of interest on the remaining $255.9 million Bank Facilities, the change in interest expense for the three months ended would be $2.6 million (December 31, 2016 – $2.6 million). All interest charges are recorded on the interim condensed statements of earnings (loss) as net finance costs.

Liquidity Risk

Liquidity risk is the risk that Enerflex may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its committed facility with a U.S. lender and a Bank Facility for future drawings to meet future growth targets. As at March 31, 2017, the Company held cash and cash equivalents of $157.2 million and had drawn $349.2 million against the Bank Facility, leaving it with access to $359.6 million for future drawings.

A liquidity analysis of the financial instruments has been completed on a maturity basis. The following table outlines the cash flows associated with the maturity of financial liabilities as at March 31, 2017:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 170	$ 113	$ -	$ 283
Accounts payable and accrued liabilities	268,379	-	-	268,379
Long-term debt - bank facility	-	-	349,169	349,169
Long-term debt - notes	-	-	40,000	40,000
Other long-term liabilities	-	-	15,637	15,637

The Company expects that continued cash flows from operations in 2017, together with cash and cash equivalents on hand and available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

Note 11. Supplemental Cash Flow Information

	Three months ended March 31,	
	2017	2016
Cash (used in) provided by changes of non-cash working capital		
Accounts receivable	**$ (139,215)**	$ 53,526
Inventories	**(6,179)**	1,058
Deferred revenue	**37,928**	(11,883)
Accounts and taxes payable and accrued liabilities and provisions	**67,368**	(23,245)
Foreign currency and other	**1,733**	19,369
	$ (38,365)	$ 38,825

Cash paid and received during the period:

	Three months ended March 31,	
	2017	2016
Interest paid	**$ 2,372**	$ 2,564
Interest received	**(494)**	(310)
Taxes paid	**4,256**	1,465

Note 12. Revenue

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

	Three months ended March 31,	
	2017	2016
United States	**$ 170,184**	$ 96,557
Canada	**74,168**	52,643
Kuwait	**34,458**	-
Argentina	**14,146**	16,952
Oman	**13,702**	19,272
Mexico	**13,555**	23,694
Bahrain	**11,165**	12,698
Australia	**9,242**	14,862
United Arab Emirates	**4,608**	2,073
Brazil	**2,693**	3,801
Other	**6,866**	29,150
Total Revenue	**$ 354,787**	$ 271,702

Note 13. Guarantees, Commitments and Contingencies

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

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

2017	$	13,479
2018		14,081
2019		10,858
2020		7,227
2021		5,772
Thereafter		5,359
Total	$	56,776

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

2017	$	193,251
2018		12,542
2019		1,532

Note 14. Seasonality

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

Note 15. Segmented Information

Enerflex has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the three months ended March 31, 2017, the Company recognized $115.8 million of revenue from one customer in the USA segment, which represents 32.6% of total revenue for the period. At March 31, 2017, the accounts receivable balance for the customer was $133.2 million, which represents 29.6% of total accounts receivable.

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

Three months ended	Canada		USA		Rest of World		Total	
March 31,	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment revenue	**$ 77,031**	$ 62,101	**$ 203,590**	$ 116,899	**$ 85,532**	$ 107,895	**$ 366,153**	$ 286,895
Intersegment revenue	**(693)**	(950)	**(10,410)**	(7,079)	**(263)**	(7,164)	**(11,366)**	(15,193)
External revenue	**$ 76,338**	$ 61,151	**$ 193,180**	$ 109,820	**$ 85,269**	$ 100,731	**$ 354,787**	$ 271,702
Operating income (loss)	**$ (1,538)**	$ (11,403)	**$ 22,644**	$ 8,012	**$ 9,235**	$ 2,092	**$ 30,341**	$ (1,299)

	Canada		USA		Rest of World		Total	
	Mar. 31,	Dec. 31,	**Mar. 31,**	Dec. 31,	**Mar. 31,**	Dec. 31,	**Mar. 31,**	Dec. 31,
As at	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Segment assets	**$ 440,658**	$ 376,518	**$ 496,417**	$ 406,680	**$ 703,287**	$ 723,931	**$ 1,640,362**	$ 1,507,129
Goodwill	**88,367**	88,367	**140,324**	141,430	**346,452**	342,029	**575,143**	571,826
Corporate	**-**	-	**-**	-	**-**	-	**(215,822)**	(197,012)
Total segment assets	**$ 529,025**	$ 464,885	**$ 636,741**	$ 548,110	**$ 1,049,739**	$ 1,065,960	**$ 1,999,683**	$ 1,881,943

Note 16. Subsequent Events

Subsequent to March 31, 2017, Enerflex declared a quarterly dividend of $0.085 per share, payable on July 6, 2017, to shareholders of record on May 18, 2017.

DIRECTORS AND EXECUTIVES

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

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

H. Stanley Marshall [3]
Director
Paradise, NL

Stephen J. Savidant
Chairman
Calgary, AB

Michael A. Weill [6]
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Houston, TX

Helen J. Wesley [6]
Director
Calgary, AB

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

Bradley Beebe
President, Canada
Calgary, AB

Marc Rossiter
President, United States of America
Houston, TX

Patricia Martinez
President, Latin America
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Phil Pyle
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[1] Chair of the Nominating and Corporate Governance Committee
[2] Member of the Nominating and Corporate Governance Committee
[3] Chair of the Human Resources and Compensation Committee
[4] Member of the Human Resources and Compensation Committee
[5] Chair of the Audit Committee
[6] Member of the Audit Committee

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRUSTEE, REGISTRAR, AND TRANSFER AGENT

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

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

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