ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS
ENDED JUNE 30, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 and six months ended June 30, 2013 and the audited consolidated financial statements and MD&A for the year ended December 31, 2012.

The interim condensed 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 August 14, 2013 and focuses on information and key statistics from the unaudited condensed interim financial statements, and pertains to known risks and uncertainties relating to the oil and gas service 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 Information Circular, is available on SEDAR at www.sedar.com.

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. For further information on the nature of forward-looking statements, and the related risks, uncertainties and assumptions, refer to the Company's MD&A for the year ended December 31, 2012. 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; 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.

THE COMPANY

Enerflex is a single-source supplier for natural gas compression, oil and gas processing, refrigeration systems and power generation equipment – plus in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission and service hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, CO_2 processing plants, refrigeration systems and power generators serving the natural gas production industry.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Headquartered in Calgary, Canada, Enerflex has approximately 3,000 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint-ventures, operate in Canada, the United States, Argentina, Colombia, Australia, the United Kingdom, Russia, the United Arab Emirates ("UAE"), Oman, Egypt, Bahrain, Indonesia and Singapore.

Enerflex operates three business segments: Canada and Northern U.S., Southern U.S. and Latin America, and International. Each regional business segment has two or more of the three main product lines: Engineered Systems, Service and Rentals. A summary of the business segments and product lines is provided below.

Canada and Northern U.S.

> Compression and Process provides custom and standard compression packages for reciprocating and screw compressor applications; Retrofit provides re-engineering, reconfiguration and repackaging of compressors for various field applications. Manufacturing facilities are located in Calgary, Alberta and Casper, Wyoming;

> Production and Processing ("P&P") designs, manufactures, constructs and installs modular natural gas processing equipment, and waste gas systems, for the natural gas, heavy oil Steam Assisted Gravity Drainage ("SAGD") and heavy mining segments of the market. The manufacturing facility is located in Nisku, Alberta;

> Service (Gas Drive) provides mechanical services and parts as the authorized distributor of GE's Waukesha gas engines to the oil and gas industries, focusing in Canada and the Northern U.S., and as the authorized distributor and service provider of Jenbacher engines and parts in Canada; and

> Rentals provides natural gas compression and power generation equipment rentals.

Southern U.S. and Latin America

> Compression and Process provides custom and standard compression packages for reciprocating and screw compressor applications from facilities located in Houston, Texas;

> Gas Processing engineers, designs, manufactures, constructs and installs modular natural gas processing equipment, refrigeration systems and turnkey deep cut cryogenic gas processing facilities packages from the Houston facilities; and

> Service provides mechanical services and products to the oil and gas industries.

International

<u>Continuing Operations</u>

> AustralAsia division provides process facility construction for gas and power facilities and compression package assembly. This division also provides mechanical service and parts, as the authorized Waukesha distributor for the oil and gas industry in this region;

> Southeast Asia division, including a recently launched operation in Singapore, provides compression and processing solutions to customers in the region. Service capabilities are also provided to Southeast Asia through the Indonesian operations in AustralAsia; and

> Middle East and North Africa ("MENA") division provides engineering, procurement and construction services, compression and process package sales, as well as operating and maintenance services for gas compression and processing facilities in the region.

Effective January 1, 2013, the reporting for the P&P division was changed from the International business segment to the Canada and Northern U.S. segment. The change in reporting was to focus the division on expansion into Alberta's oil sands, and to better align Enerflex's North American manufacturing facilities. Comparative amounts for 2012 have been reclassified to reflect this change for both the Canada and Northern U.S., and International business segments.

Discontinued Operations

- Enerflex Europe ("EE") provides Service and Combined Heat and Power ("CHP") products to the region. Enerflex has reported EE as a discontinued operation since the third quarter of 2011. Enerflex completed the sale of this business in the second quarter of 2013.

Engineered Systems

The Engineered Systems product line includes engineering, fabrication and assembly of standard and custom-designed compression packages; production and processing equipment and facilities, including refrigeration systems and turnkey deep cut cryogenic gas processing packages; and power generation systems.

Service

The Service product line includes support services, labour and parts sales to the oil and gas industry. Enerflex, directly or through wholly-owned Gas Drive Global LP ("Gas Drive") subsidiaries, is the authorized distributor and service provider, for GE's Waukesha gas engines and parts in Canada, the Northern U.S. including Alaska, Australia, Indonesia and Papua New Guinea, and for Jenbacher gas engines and parts in Canada. The Company is also the exclusive authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems in Canada, Australia, and New Zealand. Outside of Gas Drive's designated distribution / service areas, after-market service continues to be provided by Enerflex.

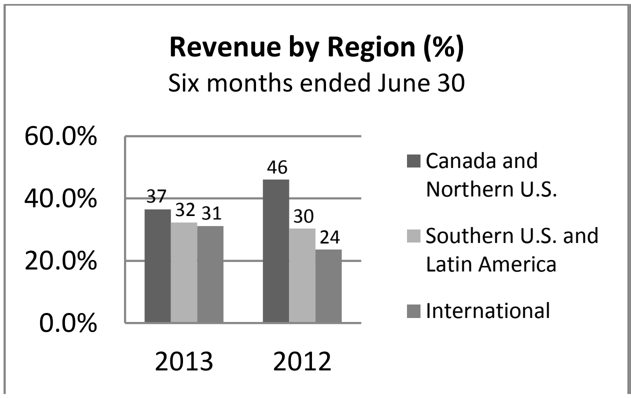
Rentals

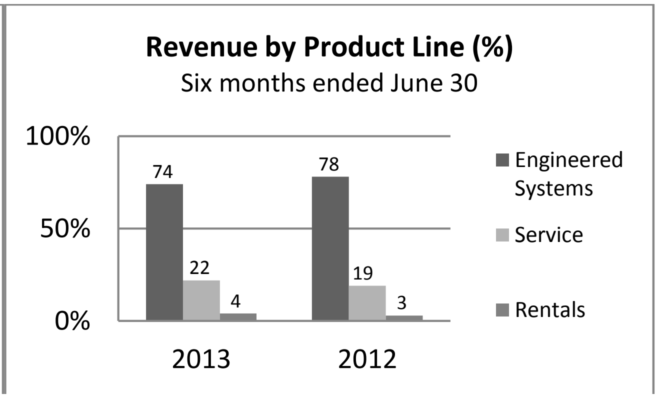
The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, power generation and processing equipment. The rental fleet is primarily deployed in Western Canada and the Northern U.S. Expansion in international markets is conducted on a selective basis to minimize the risk of these newer markets.

ENERFLEX STRATEGY

Enerflex's vision is to be the leader at delivering innovative natural gas compression, processing and power generation solutions throughout the world. Enerflex's strategy to support this vision centres on being an operationally focused, financially strong, dividend-paying company that delivers profitable growth by serving an expanding industry in six gas producing regions worldwide. Being a global company enables Enerflex to generate more value.

Across the Company, Enerflex looks to leverage its international positioning to provide exposure to projects in growing natural gas markets; to offer 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. As a result, Enerflex seeks to continue to diversify its revenue streams from multiple markets, to maintain a strong backlog globally and to ensure profitable global margins, with a medium term goal of achieving a 10% earnings before interest and tax ("EBIT") margin. In addition, Enerflex seeks to expand the diversification of its product lines, with a goal to achieve 35-40% recurring revenue (revenue from the service and rental product lines). The table below demonstrates how Enerflex is making progress towards these diversification goals, both in terms of revenue sources, and in terms of product lines.





MANAGEMENT'S DISCUSSION AND ANALYSIS

The Company has identified the key performance drivers required to achieve its company-wide goals and monitors its performance against these company-wide goals through the use of key performance indicators. The key performance drivers include a highly qualified and motivated workforce, integrated systems and processes, world class design and manufacturing capabilities, excellent safety performance, a strong financial footing, and a global reach across the product life-cycle. Further information and discussion on the key performance indicators used to monitor performance is provided in the *Financial Highlights, Canada and Northern U.S. Segment Results, Southern U.S. and Latin America Segment Results, International Segment Results,* and *Liquidity* Sections.

Enerflex determines strategies for each of its business segments to achieve company-wide goals, focusing on the areas of its operations that best support these goals. A summary of progress against 2013 strategic objectives during the first half of 2013 is provided below:

2013 Strategic Objective	Performance to June 30, 2013
Become increasingly active in the Alberta oil sands through the pursuit of opportunities to supply modules and equipment that build on the Company's proven manufacturing competencies.	The Company's presence in the Alberta oil sands continues to grow with bookings of $18.6 million during the first half of 2013.
Enter the Southeast Asia market for gas compression and processing equipment through the new Singapore location.	A sales presence was added in Malaysia, and bookings of $27.5 million were recorded during the first half of 2013, including new projects in Indonesia. Further growth is expected through the rest of the year.
Initiate the sale of cryogenic processing facilities in North American liquids-rich gas plays.	Enerflex has received enquiries for the cryogenic processing facilities and continues to prebuild two cryogenic plants.
Build on the strong sales growth of 2012 by pursuing continued growth in the Southern U.S. and Latin America, and International compression and processing markets.	Bookings for the Southern U.S. and Latin America, and International segments, for the first half of 2013 were comparable with the same period of 2012. Bookings were higher in the second quarter of 2013 for the International operations, particularly in the AustralAsia region.
Continue to improve manufacturing processes, systems and project execution in all regions. This will include progressing the Company-wide implementation of SAP, and implementing regional gas processing models.	Progress was made during 2013 with the alignment of all North American manufacturing facilities in one business segment effective January 1, 2013, and the June 2013 announced closure of the Casper, Wyoming manufacturing plant. The Company completed the next phase of the SAP implementation, ready for go-live early in July 2013.
Continue making progress in safety management programs and improve the Company-wide total recordable injury rate ("TRIR") by 13% in 2013.	Progress has been made, with the TRIR for 2013 at 15% below the 2012 rate and therefore representing an improvement beyond the 2013 goal.
Conduct a capital expenditure program of approximately $36 million that balances growth and risk management objectives. It includes developing the cryogenic engineering and manufacturing capability in the Southern U.S., adding to the rental fleet as needed, and expanding and adding to facilities to accommodate future growth.	During the first half of 2013, the Company incurred $17 million in capital expenditures. These expenditures were primarily for assets under construction: including IT systems, expenditures to accommodate facility growth in Houston, and rental and shop equipment that were immediately placed into service.
Continue progressing towards the goal of 35-40% recurring revenue on a trailing 12 month basis.	Recurring revenue as a percentage of revenue for the period ended June 30, 2013 at 23.3% was comparable to 23.5% for the period ended June 30, 2012.
Make measurable progress towards the medium-term objective of a 10% EBIT margin on a trailing 12 month basis.	EBIT margin for the period ended June 30, 2013 increased to 8.0% from 7.4% for the period ended June 30, 2012.

OVERVIEW

The oil and natural gas service sector in the Canada and Northern U.S. segment 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 generally more stable throughout the year. Rentals' revenues are also impacted by both the Company's, and its customers' capital investment decisions. The Southern U.S. and Latin America, and International segments are not significantly impacted by seasonal factors. Variations from these trends in all regional segments generally occur when hydrocarbon energy supply and demand fundamentals are either improving or deteriorating.

During the second quarter of 2013, Enerflex recorded bookings of $317.5 million compared to $266.8 million during the same period in 2012, an increase of $50.7 million. During the six months ended June 30, 2013, bookings were $506.8 million compared to $489.6 million during the same period in 2012, an increase of $17.2 million. The increase was due to higher bookings in the Canada and Northern U.S. segment, primarily driven by customer orders destined for international markets, and by International segment bookings, partially offset by slightly lower bookings in the Southern U.S. and Latin America segment where activity levels were down but remained strong despite weakening natural gas liquids ("NGL") prices. It is important to note that international projects have long lead times associated with tendering, bid evaluation and contract award as projects tend to be larger in scale and scope.

Manufacturing activity levels for the Engineered Systems product line, and correspondingly revenue, decreased in the second quarter of 2013 in all three segments. On a year to date basis, revenues were lower in the Canada and Northern U.S., and Southern U.S. and Latin America segments, more than offsetting increased revenues in the International segment. The lower revenues in 2013 were a result of a lower backlog at the start of 2013 of $683.2 million, compared to $986.1 million at the start of 2012. Engineered Systems revenue decreased by 18.4% from $273.2 million in the second quarter of 2012 to $222.9 million in the second quarter of 2013, and by 11.2% from $554.5 million to $492.3 million in the six months ended June 30, 2012 and 2013, respectively. As a result of the higher booking levels and the lower conversion of backlog to Engineered Systems revenue, the backlog has increased to $697.8 million as at June 30, 2013.

During the second quarter of 2013, Enerflex decided to stop all compression and process new unit packaging out of its Casper, Wyoming location. Sales, Service, Rentals and Retrofit operations in the area will continue as before. The Casper new unit packaging location was started in 2006 for the primary purpose of supplying coal bed methane compression that would be installed in the Wyoming Powder River Basin. This facility had been very successful in serving this market over a number of years. Unfortunately with the emergence of more economical shale gas plays in other parts of the United States, the Powder River Basin is no longer an active area for new compression. In addition, Enerflex has experienced manufacturing performance challenges at the facility, which resulted in warranty expenses of $9.6 million over the last 24 months. Equipment scheduled to be packaged in Casper will now be completed at the Calgary facility or at the expanded Houston facility. Enerflex intends to sell or lease the Casper facility and has recorded $1.1 million in restructuring expenses related to the closure during the second quarter of 2013. Should the Powder River Basin again become active, it will be served through the Denver and Houston operations.

Service activity levels in 2013 improved over 2012 in all segments, with the Company continuing to benefit from increased activity in the Canada, Southern U.S. and AustralAsia regions. Company-wide, revenues from the Service product line in 2013 have increased 7.5% from $73.4 million to $78.9 million in the second quarter and 7.2% from $136.9 million to $146.7 million in the first six months of 2013. During the second quarter of 2013, Enerflex signed a long-term maintenance agreement in the AustralAsia region, valued at more than $70.0 million over the first 8 years.

North American rental utilization levels improved to 67% during the second quarter of 2013, compared to 63% during the same period in 2012. The increase in utilization over 2012 was largely the result of sales of idle rental units from the fleet, resulting in a decrease in the total horsepower available, and a corresponding increase in revenues in 2013. Rental revenue for the International segment in the second quarter and first six months of 2013 was down from the same periods in 2012.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Update on Discontinued Operations

The European Service and CHP business, within the International segment, has been reported as a discontinued operation since the third quarter of 2011. In June 2013, Enerflex completed the sale of the European business to a company specializing in CHP fabrication and service. As part of the arrangement, Enerflex transferred certain maintenance contracts and employees to the purchasing company, as well as all obligations associated with these contracts and employees. The sale was conducted in accordance with Dutch information and consultation rules.

OUTLOOK FOR MARKETS

The Canada and Northern U.S. segment experienced a downturn in activity levels during 2012 as a result of weak natural gas prices, which began to recover in the second half of 2012, and continued through to April 2013. Since then gas prices have trended downwards, currently sitting at around $3.70/mcf. North American storage levels are down year over year and slightly below the five year average. Absent a material short term increase in demand or decrease in current production levels, Enerflex expects natural gas storage levels to trend above the five year average for the remainder of 2013, which will in turn keep natural gas prices low or range bound. This continues to create uncertainty for producers and results in downward pressure on capital spending directed at dry gas exploration and production, a trend that was witnessed in this region during 2012. This negatively impacts bookings for Enerflex's Engineered Systems business and challenges revenues for the Service and Rentals businesses. Enerflex expects this trend for the region to continue through 2013, unless there is significant improvement in natural gas supply and demand fundamentals, until liquefied natural gas ("LNG") projects in Western Canada progress, or the development of the Duvernay Shale play expands.

The performance of the Southern U.S. and Latin America segment has been largely dependent on activity in liquids-rich U.S. gas basins, which give rise to new orders for compression and processing equipment for this region. These liquids-rich resource basins can achieve superior returns for producers despite low natural gas prices due to the higher value that can be realized for the NGL. Activity levels remain strong in these basins as long as the frac spread (the differential between NGL prices and natural gas prices) remains high. Activity in these regions has remained steady for the first half of 2013 despite a recent weakening in NGL prices. As such, Enerflex continues to be optimistic yet cautious with respect to this region. Enerflex remains well positioned in this segment given backlog levels, which stood at $277.9 million at the end of the second quarter of 2013.

The International segment continues to hold considerable long-term opportunity as evidenced by strong bookings for the second quarter of 2013. Bookings were $75.7 million, which is higher than the $72.8 million during the same period in 2012. Generally, bookings are reflected within the contracting entity. Therefore in assessing international prospects, consideration should be given to bookings recorded in the Canada and Northern U.S., and Southern U.S. and Latin America segments, which are destined for international markets but are not presented in the International segment. Bookings for compression and processing equipment, destined for international markets, which were recorded and will be fabricated in the Canada and Northern U.S., and Southern U.S. and Latin America segments, totalled $82.2 million in the second quarter of 2013 and $119.8 million for the first six months of 2013, compared to $36.2 million and $86.9 million for the same periods in 2012.

International activity is generally driven by the natural gas industry in Australia, South East Asia and the MENA region. In Australia, there are numerous LNG projects in various stages of development with the potential for additional phases to be developed in the future. In addition, there are improving after-market service opportunities resulting from deliveries of LNG related equipment, as evidenced by a recent long-term maintenance agreement for over $70.0 million signed with Enerflex. In the MENA region, Enerflex has adopted a targeted approach to mitigate exposure to political uncertainties. Enerflex commenced commercial activities on some key projects in the region during 2012 including the gas processing plant currently being constructed in Oman. Domestic demand for gas in this region remains strong and the Company is well positioned to compete for future projects in the UAE, Oman and Bahrain for compression, processing equipment and after-market service support. Enerflex has recorded bookings in Southeast Asia and continues to see significant growth in this market. Project tendering, bid evaluation and contract awards have longer lead times in the International region due to projects being larger in scale and scope. Enerflex remains well positioned in this segment given backlog levels, which stood at $203.4 million at the end of the second quarter of 2013.

FINANCIAL HIGHLIGHTS

($ Canadian thousands)	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Revenue				
Canada and Northern U.S.	**$ 122,396**	$ 143,444	**$ 242,419**	$ 327,139
Southern U.S. and Latin America	**99,158**	102,754	**214,517**	215,594
International	**89,483**	108,438	**207,363**	167,634
Total revenue	**311,037**	354,636	**664,299**	710,367
Costs of goods sold	**246,630**	288,653	**538,891**	582,067
Gross margin	**64,407**	65,983	**125,408**	128,300
Selling and administrative expenses	**38,171**	37,559	**77,159**	78,705
Operating income	**26,236**	28,424	**48,249**	49,595
(Gain) loss on disposal of property, plant and equipment	**(23)**	324	**(46)**	324
Equity earnings from associates and joint ventures	**(821)**	(446)	**(1,564)**	(873)
Earnings before finance costs and taxes	**27,080**	28,546	**49,859**	50,144
Finance costs and income	**1,559**	1,597	**2,890**	2,974
Earnings before taxes	**25,521**	26,949	**46,969**	47,170
Income tax expense	**7,116**	7,548	**13,185**	12,871
Loss from discontinued operations	**(1,234)**	(7,649)	**(1,727)**	(8,403)
Net earnings	**$ 17,171**	$ 11,752	**$ 32,057**	$ 25,896
Key Financial Performance Indicators [1]				
Bookings	**$ 317,487**	$ 266,828	**$ 506,834**	$ 489,566
Backlog	**$ 697,779**	$ 921,201	**$ 697,779**	$ 921,201
Recurring revenue as a percentage of revenue [2]	**23.3%**	23.5%	**23.3%**	23.5%
Gross margin as a percentage of revenue	**20.7%**	18.6%	**18.9%**	18.1%
Selling and administrative expenses as a percentage of revenue	**12.3%**	10.6%	**11.6%**	11.1%
EBIT as a percentage of revenue [2]	**8.0%**	7.4%	**8.0%**	7.4%
Earnings before interest, tax, depreciation and amortization ("EBITDA")	**$ 37,104**	$ 38,150	**$ 69,669**	$ 69,537
Return on capital employed	**13.0%**	11.1%	**13.0%**	11.1%
Net debt to EBITDA ratio	**0.12:1**	0.30:1	**0.13:1**	0.32:1

1 Key financial performance indicators used by Enerflex to measure its performance include revenue and EBIT.

2 Determined by taking the trailing 12-month period.

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. A number 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 (cash) 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 Operating Margin

Operating income and margin assists the reader in understanding the net contributions made from the Company's core businesses after considering all selling, general and administrative ("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 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 this 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, assets are amortized or how the results are taxed in various jurisdictions.

ROCE

ROCE is a measure that management uses 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 the average of four previous quarters plus current month balance (short-term debt + long-term debt + equity – cash).

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 divided by the annualized EBITDA.

CONSOLIDATED RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013

During the second quarter of 2013, the Company generated $311.0 million in revenue compared to $354.6 million in the second quarter of 2012. During the six months ended June 30, 2013, revenue was $664.3 million compared to $710.4 million in the same period of 2012. The decreases of $43.6 million and $46.1 million, respectively, were due to lower revenue in the Canada and Northern U.S, and Southern U.S. and Latin America segments. Revenue from the International segment was lower for the second quarter but higher for the first six months of 2013, when compared to the same periods in 2012. As compared to the three and six months period ended June 30, 2012:

> Canada and Northern U.S. segment revenue decreased by $21.0 million during the second quarter of 2013, and by $84.7 million for the six months ended June 30, 2013, as a result of lower Engineered Systems revenue due to lower 2013 opening backlog. For the six months ended June 30, 2013, Rental revenue was higher as a result of increased rental unit sales;

- Southern U.S. and Latin America segment revenue decreased by $3.6 million in the second quarter of 2013, and by $1.1 million for the six months ended June 30, 2013, with slightly lower Engineered Systems revenue partially offset by increased Service revenue; and
- International segment revenue decreased by $18.9 million in the second quarter of 2013 on account of lower Engineered Systems revenue due to lower opening backlog, particularly in the AustralAsia region. For the six months ended June 30, 2013, International segment revenue increased by $39.7 million due to higher Engineered Systems revenue on the back of higher activity levels in the AustralAsia and MENA regions.

Gross Margin for the three months ended June 30, 2013 was $64.4 million or 20.7% of revenue compared to $66.0 million or 18.6% of revenue for the three months ended June 30, 2012. Gross margin for the six months ended June 30, 2013 was $125.4 million or 18.9% of revenue compared to $128.3 million or 18.1% of revenue for the six months ended June 30, 2012. The decrease in gross margin was primarily due to lower gross margin in the Canada and Northern U.S. segment, and for the second quarter of 2013, lower gross margin in the Southern U.S. and Latin America, as a result of the decrease in Engineered Systems revenue. The International segment demonstrated strong gross margin performance during the three and six months ended June 30, 2013.

In Canada and the Northern U.S., gross margin was lower in 2013 primarily due to lower revenues, weaker plant utilization and warranty costs incurred on Engineered Systems jobs in Casper, Wyoming, partially offset by improved project performance. The lower gross margin in the second quarter of 2013 in the Southern U.S. and Latin America segment was attributable to weaker plant utilization on lower labour hours for Engineered Systems jobs. In the International segment, gross margin increased due to improved gross margin performance, and for the six months ended June 30, 2013, higher revenues.

SG&A expenses were $38.2 million or 12.3% of revenue during the three months ended June 30, 2013, compared to $37.6 million or 10.6% of revenue in the same period of 2012. SG&A expenses were $77.2 million or 11.6% of revenue during the six months ended June 30, 2013, compared to $78.7 million or 11.1% of revenue in the same period of 2012. The decrease in SG&A expenses for the six months ended June 30, 2013 year was a result of lower office and occupancy costs, lower information technology expenses and favourable foreign exchange movements, partially offset by higher depreciation and amortization expense.

Operating Income during the second quarter of 2013 was $26.2 million or 8.4% of revenue compared to $28.4 million or 8.0% of revenue in the same period of 2012. Operating income during the first six months of 2013 was $48.2 million or 7.3% compared to $49.6 million or 7.0% of revenue in the same period of 2012.

EBIT for the second quarter of 2013 was $27.1 million or 8.7% of revenue compared to $28.5 million or 8.0% of revenue in the same period of 2012. EBIT for the first six months of 2013 was $49.9 million or 7.5% compared to $50.1 million or 7.1% of revenue in the same period of 2012.

The decreases in operating income and EBIT were due to the same factors contributing to the reduced gross margin, and for the second quarter of 2013, the higher SG&A expenses, partially offset by higher earnings from associates and joint ventures. For the six months ended June 30, 2013, lower SG&A expenses partially offset the impact of lower gross margin.

Income Tax Expense totalled $7.1 million or 27.9% of earnings before tax for the three months ended June 30, 2013 compared to an expense of $7.5 million or 28.0% of earnings before tax in the same period of 2012. The decrease in income tax expense was primarily due to lower pre-tax earnings. Income tax expense totalled $13.2 million or 28.1% of earnings before tax for the six months ended June 30, 2013 compared to an expense of $12.9 million or 27.3% of earnings before tax in the same period of 2012. The increases in income tax expense and the effective tax rate were primarily due to variations in the mix of earnings in foreign operations for the comparative period.

Net Earnings from continuing operations for the second quarter of 2013 were $18.4 million or $0.24 per share, compared to $19.4 million or $0.25 per share in the same period of 2012. The decrease in net earnings was a result of lower gross margins and higher SG&A expenses, partially offset by lower income tax expense. Net earnings from continuing operations for the six months of 2013 were $33.8 million or $0.44 per share, compared to $34.3 million or $0.44 per share in the same period of 2012. The decrease in net earnings was caused by lower gross margins and higher income tax expense, partially offset by lower SG&A expenses.

Loss from discontinued operations reflects the results of EE during 2012 and 2013. This business unit recorded a net loss of $1.2 million ($0.02 per share) and $7.6 million ($0.10 per share) in the second quarter of 2013 and 2012, respectively, and $1.7 million ($0.02 per share) and $8.4 million ($0.11 per share) in the first six months of 2013 and 2012, respectively.

EBITDA from continuing operations for the second quarter of 2013 was $37.1 million, compared to $38.2 million in the same period of 2012. EBITDA from continuing operations for the six months ended of 2013 was $69.7 million, compared to $69.5 million in the same period of 2012.

ROCE from continuing operations for the second quarter and first six months of 2013 was 13.0%, compared to 11.1% in the same periods of 2012. The increase in ROCE was a result of an increase in trailing 12-month EBIT and lower capital employed.

CANADA AND NORTHERN U.S. SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Segment revenue	**$ 137,859**	$ 162,593	**$ 290,860**	$ 359,683
Intersegment revenue [1]	**(15,463)**	(19,149)	**(48,441)**	(32,544)
Revenue	**$ 122,396**	$ 143,444	**$ 242,419**	$ 327,139
Revenue – Engineered Systems	**$ 70,709**	$ 94,539	**$ 135,082**	$ 228,649
Revenue – Service	**$ 43,155**	$ 41,834	**$ 83,615**	$ 81,431
Revenue – Rental	**$ 8,532**	$ 7,071	**$ 23,722**	$ 17,059
Operating income	**$ 5,213**	$ 8,948	**$ 8,416**	$ 21,262
EBIT	**$ 6,088**	$ 9,235	**$ 10,079**	$ 21,976
Segment revenue as a % of total revenue	**39.4%**	40.4%	**36.5%**	46.1%
Recurring revenue as a % of segment revenue	**42.2%**	34.1%	**44.3%**	30.1%
Operating income as a % of segment revenue	**4.3%**	6.2%	**3.5%**	6.5%
EBIT as a % of segment revenue	**5.0%**	6.4%	**4.2%**	6.7%

1 Intersegment revenue includes revenue on contracts relating to CSG projects in Queensland, Australia.

Canada and Northern U.S. revenue totalled $122.4 million and $242.4 million in the second quarter and first six months of 2013 compared to $143.4 million and $327.1 million for the same periods of 2012. The decreases in revenue of $21.0 million and $84.7 million, respectively, were a result of lower Engineered Systems revenue caused by lower backlog to start 2013, partially offset by higher Rental revenue as a result of an increase in rental unit sales. Service revenue was slightly higher when compared with the same period of 2012 due to increased engine and parts sales.

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Revenue				
Canada and United States	**$ 118,935**	$ 122,879	**$ 234,189**	$ 285,362
International [2]	**3,461**	20,565	**8,230**	41,777
	$ 122,396	$ 143,444	**$ 242,419**	$ 327,139

2 International revenue represents revenue from equipment that will be manufactured in this segment and delivered to International markets that Enerflex services.

Operating income decreased by $3.7 million to $5.2 million in the second quarter of 2013 compared to the second quarter of 2012 as a result of lower gross margin and higher SG&A expenses. For the first six months of 2013, operating income decreased by $12.8 million to $8.4 million compared to the same period in 2012 due to lower gross margin, partially offset by lower SG&A expenses. The decreases in gross margin were a result of lower revenues and the corresponding impact on gross margin, weaker plant utilization and warranty costs incurred on Engineered Systems jobs in Casper, Wyoming, partially offset by improved project performance. SG&A expenses were higher in the second quarter of 2013 due to costs associated with the closure of the Casper, Wyoming facility, but lower for the first six months of 2013 due to lower compensation and incentive costs, favourable foreign exchange rate movements, and lower office and occupancy costs.

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Bookings				
Canada and United States	**$ 82,203**	$ 53,508	**$ 150,574**	$ 140,435
International [1]	**40,705**	15,559	**42,238**	27,596
	$ 122,908	$ 69,067	**$ 192,812**	$ 168,031

[1] International bookings represent orders for equipment that will be manufactured in this segment and delivered to International markets that Enerflex services.

Backlog in the Canada and Northern U.S. segment was $216.5 million at June 30, 2013 compared to $158.8 million at December 31, 2012, an increase of $57.7 million. The increases in bookings during the three and six months ended June 30, 2013 were driven by an increase in domestic activity levels despite continued weakness in natural gas prices, and by customer orders destined for international markets.

SOUTHERN U.S. AND LATIN AMERICA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Segment revenue	**$ 102,335**	$ 102,775	**$ 226,642**	$ 215,921
Intersegment revenue	**(3,177)**	(21)	**(12,125)**	(327)
Revenue	**$ 99,158**	$ 102,754	**$ 214,517**	$ 215,594
Revenue – Engineered Systems	**$ 84,127**	$ 91,056	**$ 187,511**	$ 194,353
Revenue – Service	**$ 15,031**	$ 11,698	**$ 27,006**	$ 21,241
Operating income	**$ 11,402**	$ 12,944	**$ 24,362**	$ 22,713
EBIT	**$ 11,386**	$ 12,793	**$ 24,361**	$ 22,562
Segment revenue as a % of total revenue	**31.9%**	29.0%	**32.3%**	30.3%
Recurring revenue as a % of segment revenue	**15.2%**	11.4%	**12.6%**	9.9%
Operating income as a % of segment revenue	**11.5%**	12.6%	**11.4%**	10.5%
EBIT as a % of segment revenue	**11.5%**	12.5%	**11.4%**	10.5%

Southern U.S. and Latin America revenue totalled $99.2 million and $214.5 million in the first three and six months of 2013, compared to $102.8 million and $215.6 million in the same periods of 2012. The decreases in revenue of $3.6 million and $1.1 million, respectively, were attributable to lower Engineered Systems revenue, which was partially offset by higher Service revenue on increased service calls and parts sales, compared to the same periods in 2012. Engineered Systems revenue in the first three and six months of 2013 was lower as a result of lower opening backlog to start 2013. Despite lower opening backlog to start 2013, Engineered Systems revenue for 2013 was only slightly lower as a result of the additional capacity provided by the expansion of the Houston manufacturing facility, which led to an increase in backlog conversion.

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Revenue				
United States and Latin America	**$ 97,543**	$ 90,417	**$ 186,620**	$ 185,027
International [2]	**1,615**	12,337	**27,897**	30,567
	$ 99,158	$ 102,754	**$ 214,517**	$ 215,594

[2] International revenue represents revenue from equipment that will be manufactured in this segment and delivered to International markets that Enerflex services.

Operating income decreased by $1.5 million in the second quarter of 2013 to $11.4 million compared to the second quarter of 2012, due to lower gross margin, partially offset by lower SG&A expenses. For the six months ended June 30, 2013, operating income increased $1.6 million to $24.4 million compared to the same period in 2012, due to an increase in gross margin and lower SG&A expenses. The lower gross margin in the second quarter of 2013 was attributable to weaker plant utilization on Engineered Systems jobs. For the six months ended June 30, 2013, gross margin increased as a result of improved gross margin performance on Engineered Systems jobs despite lower manufacturing utilization rates at the Houston facility. SG&A expenses were lower in 2013 compared to 2012 as a result of lower office and occupancy costs, partially offset by an increase in amortization expense for intangible assets related to Enterprise Resource Planning ("ERP") system development, and depreciation related to the expansion of the Houston facility, which became operational during the second quarter of 2012.

($ Canadian thousands)	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Bookings				
United States and Latin America	**$ 77,341**	$ 104,339	**$ 160,250**	$ 181,323
International [1]	**41,497**	20,648	**77,523**	59,256
	$ 118,838	$ 124,987	**$ 237,773**	$ 240,579

[1] International bookings represent orders for equipment that will be manufactured in this segment and delivered to International markets that Enerflex services.

Southern U.S. and Latin America backlog was $277.9 million at the end of the second quarter of 2013 compared to $227.6 million at the end of 2012, an increase of $50.3 million. Bookings for the first half of 2013 were slightly lower than the comparative period but remained strong despite the continued weakness in NGL prices, while benefitting from additional activity in international markets.

INTERNATIONAL SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2013	2012	Six months ended June 30, 2013	2012
Segment revenue	**$ 89,483**	$ 108,544	**$ 207,648**	$ 168,075
Intersegment revenue	**–**	(106)	**(285)**	(441)
Revenue	**$ 89,483**	$ 108,438	**$ 207,363**	$ 167,634
Revenue – Engineered Systems	**$ 68,054**	$ 87,617	**$ 169,666**	$ 131,468
Revenue – Service	**$ 20,716**	$ 19,829	**$ 36,118**	$ 34,232
Revenue – Rental	**$ 713**	$ 992	**$ 1,579**	$ 1,934
Operating income	**$ 9,621**	$ 6,532	**$ 15,471**	$ 5,620
EBIT	**$ 9,606**	$ 6,518	**$ 15,419**	$ 5,606
Segment revenue as a % of total revenue	**28.8%**	30.6%	**31.2%**	23.6%
Recurring revenue as a % of segment revenue	**23.9%**	19.2%	**18.2%**	21.6%
Operating income as a % of segment revenue	**10.8%**	6.0%	**7.5%**	3.4%
EBIT as a % of segment revenue	**10.7%**	6.0%	**7.4%**	3.3%

Continuing Operations

International revenue totalled $89.5 million and $207.4 million in the second quarter and first six months of 2013, respectively, compared to $108.4 million and $167.6 million in the same periods of 2012. The decrease of $18.9 million in the second quarter of 2013 was on account of lower Engineered Systems revenue due to lower opening backlog, particularly in the AustralAsia region. For the six months ended June 30, 2013, International segment revenue increased by $39.8 million due to higher Engineered Systems revenue on the back of higher activity levels in the AustralAsia and MENA regions in the first quarter of 2013 compared to the same period in 2012. In addition, Service revenue increased in the second quarter and first six months of 2013 as a result of increased activity in AustralAsia.

Operating income was $9.6 million and $15.5 million for the second quarter and first six months of 2013, respectively, compared to $6.5 million and $5.6 million in the same periods of 2012. Operating income increased as a result of higher gross margin, partially offset by higher SG&A expenses. Gross margin increased due to improved gross margin performance including approved variation claims, partially offset by the impact on gross margin of cost escalations on certain Engineered Systems jobs, and for the six months ended June 30, 2013, higher revenues. Higher SG&A expenses related to higher compensation and incentive costs, and higher office and occupancy costs.

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	**2013**	2012	**2013**	2012
Bookings				
International [1]	**$ 75,741**	$ 72,774	**$ 76,249**	$ 80,956

[1] International bookings for the three and six months ended June 2013 do not include orders of $82.2 million and $119.8 million, respectively, for equipment that will be manufactured in the Canada and Northern U.S., and Southern U.S. and Latin American segments, and delivered to international markets that Enerflex services (June 30, 2012: $36.2 million and $86.9 million, respectively).

International backlog was $203.4 million at June 30, 2013 compared to $296.8 million at December 31, 2012, a decrease of $93.4 million. Bookings for the three and six months ended June 30, 2013 were comparable with the same periods last year, with strong bookings during the second quarter, particularly in the AustralAsia region.

Discontinued Operations

Loss from discontinued operations reflects the results of EE during 2012 and 2013, which recorded a net loss of $1.2 million and $7.6 million in the second quarter of 2013 and 2012, respectively. These discontinued operations recorded a net loss of $1.7 million for the first six months of 2013, compared to a net loss of $8.4 million in the first six months of 2012.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue [2]	Net earnings [2]	Earnings per share – basic [2]	Earnings per share – diluted [2]
June 30, 2013	**$ 311,037**	**$ 18,405**	**$ 0.24**	**$ 0.24**
March 31, 2013	353,262	15,379	0.20	0.20
December 31, 2012	421,590	27,004	0.35	0.35
September 30, 2012	369,727	20,950	0.27	0.27
June 30, 2012	354,636	19,401	0.25	0.25
March 31, 2012	355,731	14,898	0.19	0.19
December 31, 2011	383,802	17,720	0.22	0.22
September 30, 2011	282,335	16,979	0.22	0.22

[2] 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 debt to EBITDA ratio, and ROCE. They should not be considered as an alternative to net income 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. Definitions of the non-GAAP measures are provided in the *Definitions* section.

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
EBITDA				
Earnings before finance costs and taxes	**$ 27,080**	$ 28,546	**$ 49,859**	$ 50,144
Depreciation and amortization	**10,024**	9,604	**19,810**	19,393
EBITDA	**$ 37,104**	$ 38,150	**$ 69,669**	$ 69,537
Net Debt				
Short and long-term debt, net of deferred transaction costs	**$ 95,780**	$ 147,999	**$ 95,780**	$ 147,999
Less:				
Cash and cash equivalents	**(78,084)**	(102,934)	**(78,084)**	(102,934)
Net Debt	**$ 17,696**	$ 45,065	**$ 17,696**	$ 45,065
Net Debt to EBITDA				
Net Debt	**$ 17,696**	$ 45,065	**$ 17,696**	$ 45,065
Annualized EBITDA	**148,416**	152,600	**139,338**	139,074
Net Debt to EBITDA ratio	**0.12:1**	0.30:1	**0.13:1**	0.32:1
Recurring Revenue				
Service	**$ 78,902**	$ 73,362	**$ 146,739**	$ 136,904
Rental	**9,245**	8,063	**25,301**	18,993
Total Recurring Revenue	**$ 88,147**	$ 81,425	**$ 172,040**	$ 155,897
ROCE				
Trailing 12-month EBIT	**$ 117,056**	$ 101,492	**$ 117,056**	$ 101,492
Capital Employed – beginning of period				
Net (Cash) Debt	**$ (40,865)**	$ 27,936	**$ (48,519)**	$ 37,763
Shareholders' equity	**907,636**	843,635	**886,679**	836,262
	$ 866,771	$ 871,571	**$ 838,160**	$ 874,025
Capital Employed – end of period				
Net Debt	**$ 17,696**	$ 45,065	**$ 17,696**	$ 45,065
Shareholders' equity	**913,408**	857,048	**913,408**	857,048
	$ 931,104	$ 902,113	**$ 931,104**	$ 902,113
Average Capital Employed	**$ 900,806**	$ 915,225	**$ 900,806**	$ 915,225
Return on Capital Employed	**13.0%**	11.1%	**13.0%**	11.1%

FINANCIAL POSITION

The following table outlines significant changes in the Consolidated Statements of Financial Position as at June 30, 2013 as compared to December 31, 2012:

($ Canadian millions)	Increase (Decrease)	Explanation
Assets:		
Cash	$ (66.9)	Cash at the end of the second quarter was lower than 2012 year-end due to working capital requirements, the repayment of long-term debt, and capital expenditures associated with the implementation of the Company's ERP system.
Accounts receivable	$ 52.2	The increase in accounts receivable compared to the prior year-end is due to an accumulation of earnings in excess of billings from the Engineered Systems product line, which was offset by a reduction in trade receivables outstanding resulting from collections.
Inventories	$ 7.9	The increase in inventories compared to the end of the prior year is due to an increase in Service and Engineered Systems WIP in North America, as well as a reduction in inventory impairment on serialized equipment and finished goods inventory to reflect current net realizable value.
Rental equipment	$ (6.5)	The decrease in rental equipment over the prior year-end is due to the disposal of rental units from the fleet and the year-to-date depreciation charge, which more than offset additions to the fleet over the same period.
Intangible assets	$ (5.6)	Intangible assets decreased due to the amortization on intangible assets, inclusive of capitalized ERP implementation costs.
Liabilities:		
Accounts payable and accrued liabilities	$ (45.4)	Accounts payable and accrued liabilities have decreased over the first half of 2013 due to the payment of the 2012 annual short-term incentive plan and the timing of payments to suppliers.

LIQUIDITY

The Company's primary sources of liquidity and capital resources are:

> Cash generated from continuing operations;

> Bank financing and operating lines of credit; and

> Issuance and sale of debt and equity instruments.

Statement of Cash Flows

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Cash, beginning of period	**$ 151,642**	$ 87,967	**$ 144,988**	$ 81,200
Cash (used in) provided by:				
Operating activities	**(46,128)**	(4,590)	**(53,709)**	16,377
Investing activities	**(7,684)**	(8,892)	**(4,558)**	(17,135)
Financing activities	**(20,085)**	27,946	**(9,347)**	22,453
Exchange rate changes on foreign currency cash	**339**	503	**710**	39
Cash, end of period	**$ 78,084**	$ 102,934	**$ 78,084**	$ 102,934

Operating Activities

Cash used in operating activities totalled $46.1 million and $53.7 million in the second quarter and first six months of 2013, respectively, compared to $4.6 million in cash used and $16.4 million of cash provided for the same period of 2012. The decrease in cash from operations was due to higher working capital requirements, which more than offset the increase in earnings from operations.

Investing Activities

Cash used in investing activities totalled $7.7 million and $4.6 million in the second quarter and six months of 2013, respectively, compared to $8.9 million and $17.1 million used in investing activities for the same period of 2012. Investment in property, plant and equipment and rental equipment was consistent quarter over quarter when comparing 2013 to 2012, however for the first six months, investment in property, plant and equipment and rental equipment was $8.0 million lower in 2013. Cash proceeds from the disposal of property, plant and equipment and rental equipment was higher in 2013 for the second quarter and first six months. Net capital spending for the second quarter and first six months of 2013 was $9.1 million and $7.3 million, respectively, compared to net capital spending of $11.4 million and $22.2 million in the same periods of the prior year.

Financing Activities

Cash used in financing activities totalled $20.1 million and $9.3 million in the second quarter and first six months of 2013, respectively, compared to $27.9 million and $22.5 million in cash provided for the same periods of 2012. Long-term debt repayments in 2013 totalled $15.2 million for the second quarter and $1.1 million for the first six months, compared to proceeds from long-term debt totalling $32.4 million and $29.1 million for the same periods of 2012.

As at June 30, 2013, the annualized net debt to EBITDA ratio was 0.13:1, compared to 0.32:1 at June 30, 2012. The improvement was driven primarily by lower long-term debt levels, as annualized EBITDA remained consistent year over year. The Company expects that continued cash flows from operations in 2013, 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.

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.

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, as described in the most recent annual MD&A, is unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 8 to the interim condensed financial statements.

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.

The Company is also subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar and British Pound. For the six months ended June 30, 2013, a 5% depreciation in the Canadian dollar against the U.S. dollar, Australian dollar and British Pound would increase other comprehensive income by $7.5 million. A 5% depreciation of the Canadian dollar against the U.S. dollar, Australian dollar and British Pound would impact net earnings before tax by $2.9 million.

Enerflex does not hedge its exposure to investments in foreign subsidiaries. Exchange gains and losses on net investments in foreign subsidiaries are included in accumulated other comprehensive income ("AOCI"). The AOCI at December 31, 2012 was $1.1 million which increased to $3.4 million at June 30, 2013 as a result of changes in the value of the Canadian dollar against the Euro, Australian dollar and U.S. dollar.

Interest Rate Risk

The Company's Notes outstanding at June 30, 2013 are at fixed interest rates and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facilities however, are subject to changes in market interest rates. For each 1% change in the rate of interest on the Bank Facilities, the change in interest expense for the six months ended June 30, 2013 would be approximately $0.1 million. All interest charges are recorded on the interim condensed statements of earnings in finance costs.

Credit Risk

The Company has accounts receivable from clients engaged in various industries including natural gas producers, natural gas transport, agriculture, chemical and petrochemical processing, and the generation and sale of electricity. These specific industries may be affected by economic factors that may impact collectability of accounts receivable. Enerflex has entered into a number of significant projects through 2013 and beyond. For the six months ended June 30, 2013, the Company had no individual customer which accounted for more than 10% of its revenue.

CAPITAL RESOURCES

On August 1, 2013, Enerflex had 77,991,761 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 second quarter of 2013, the Company declared a dividend of $0.07 per share, its ninth consecutive dividend.

At June 30, 2013, the Company had $8.1 million cash drawings against the Bank Facilities (December 31, 2012- $8.8 million). The weighted average interest rate on the Bank Facilities for the six months ended June 30, 2013 was 3.04% (December 31, 2012 – 2.99%).

During the second quarter, the Company reached an agreement with its lenders to extend the maturity date of the Bank Facilities. The amount available under the Bank Facilities remains unchanged at $345 million and now has a maturity date of June 1, 2017, which may be extended annually on or before the anniversary date with the consent of the lenders.

In addition, during the quarter, the Company extended the maturity date of the Bi-Lateral facility by one year. The amount available under the Bi-Lateral remains unchanged at $50.0 million and now has a maturity date of June 1, 2015, which may be extended annually with the consent of the lender.

The Company also secured a $10.0 million dollar on-demand revolving letter of credit facility with one of the lenders in its Bank Facilities syndicate for purposes of issuing letters of credit in foreign jurisdictions.

The composition of the borrowings on the Bank Facilities and the Notes at June 30, 2013 was as follows:

	June 30, 2013
Drawings on Bank Facilities	$ 8,073
Notes due June 22, 2016	50,500
Notes due June 22, 2021	40,000
Deferred transaction costs	(2,793)
	$ 95,780

FUTURE ACCOUNTING PRONOUNCEMENTS

Effective January 1, 2013, the Company applied the following new IFRS standards for the first time: IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosures of Interests in Other Entities,* IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements.* The new standards did not have a significant impact.

In addition, the Company will be required to adopt IAS 32 *Offsetting Financial Assets and Financial Liabilities,* and IFRS 9 *Financial Instruments* effective January 1, 2014 and January 1, 2015, respectively. IFRS 9 *Financial Instruments* is being published in phases. The Company is in the process of conducting a detailed review of the potential impacts of these new standards as they are issued.

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 internal controls over financial reporting during the six month period ended June 30, 2013 that would materially affect, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

SUBSEQUENT EVENT

Subsequent to June 30, 2013, the Company declared a dividend of $0.07 per share, payable on October 3, 2013, to shareholders of record on August 27, 2013.

INTERIM CONDENSED FINANCIAL STATEMENTS

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)	**June 30, 2013**	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	**$ 78,084**	$ 144,988
Accounts receivable	**339,564**	287,387
Inventories (Note 3)	**200,639**	192,704
Derivative financial instruments (Note 8)	**982**	1,737
Other current assets	**5,776**	9,839
Total current assets	**625,045**	636,655
Property, plant and equipment (Note 4)	**133,036**	129,383
Rental equipment (Note 4)	**84,661**	91,117
Deferred tax assets	**32,209**	32,786
Other assets	**9,031**	8,803
Intangible assets	**23,581**	29,137
Goodwill	**453,092**	457,208
	1,360,655	1,385,089
Assets held for sale (Note 2)	**–**	4,175
Total assets	**$ 1,360,655**	$ 1,389,264
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	**$ 123,888**	$ 169,275
Provisions	**20,781**	17,169
Income taxes payable	**2,433**	5,410
Deferred revenues	**196,804**	193,401
Derivative financial instruments (Note 8)	**2,600**	596
Total current liabilities	**346,506**	385,851
Long-term debt (Note 5)	**95,780**	96,469
Deferred tax liabilities	**26**	410
Other liabilities	**4,935**	3,478
	447,247	486,208
Liabilities related to assets held for sale (Note 2)	**–**	16,377
Total liabilities	**$ 447,247**	$ 502,585
Shareholders' equity		
Share capital	**216,962**	212,875
Contributed surplus	**655,111**	655,879
Retained earnings	**37,982**	16,826
Accumulated other comprehensive income	**3,353**	1,099
Total shareholders' equity	**913,408**	886,679
Total liabilities and shareholders' equity	**$ 1,360,655**	$ 1,389,264

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED FINANCIAL STATEMENTS

INTERIM CONDENSED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Revenues (Note 10)	**$ 311,037**	$ 354,636	**$ 664,299**	$ 710,367
Cost of goods sold	**246,630**	288,653	**538,891**	582,067
Gross margin	**64,407**	65,983	**125,408**	128,300
Selling and administrative expenses	**38,171**	37,559	**77,159**	78,705
Operating income	**26,236**	28,424	**48,249**	49,595
(Gain) loss on disposal of property, plant and equipment	**(23)**	324	**(46)**	324
Equity earnings from associates and joint ventures	**(821)**	(446)	**(1,564)**	(873)
Earnings before finance costs and income taxes	**27,080**	28,546	**49,859**	50,144
Finance costs	**1,703**	1,880	**3,203**	3,612
Finance income	**(144)**	(283)	**(313)**	(638)
Earnings before income taxes	**25,521**	26,949	**46,969**	47,170
Income taxes (Note 6)	**7,116**	7,548	**13,185**	12,871
Net earnings from continuing operations	**$ 18,405**	$ 19,401	**$ 33,784**	$ 34,299
Loss from discontinued operations (Note 2)	**(1,234)**	(7,649)	**(1,727)**	(8,403)
Net earnings	**$ 17,171**	$ 11,752	**$ 32,057**	$ 25,896
Earnings (loss) per share – basic and diluted				
Continuing operations	**$ 0.24**	$ 0.25	**$ 0.44**	$ 0.44
Discontinued operations	**(0.02)**	(0.10)	**(0.02)**	(0.11)
Weighted average number of shares – basic	**77,791,155**	77,588,855	**77,826,239**	77,538,676
Weighted average number of shares – diluted	**78,104,561**	77,647,438	**78,080,681**	77,644,041

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME *(unaudited)*

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Net earnings	**$ 17,171**	$ 11,752	**$ 32,057**	$ 25,896
Other comprehensive (loss) income				
Other comprehensive (loss) income to 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) (2013: $(708); 2012: $(5))	**(2,514)**	(555)	**(3,274)**	(128)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense (2013: $58; 2012: $77)	**241**	273	**303**	229
Unrealized (loss) gain on translation of financial statements of foreign operations	**(4,578)**	6,108	**5,225**	795
Other comprehensive (loss) income	**$ (6,851)**	$ 5,826	**$ 2,254**	$ 896
Total comprehensive income	**$ 10,320**	$ 17,578	**$ 34,311**	$ 26,792

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED STATEMENTS OF CASH FLOW *(unaudited)*

($ Canadian thousands)	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Operating Activities				
Net earnings	**$ 17,171**	$ 11,752	**$ 32,057**	$ 25,896
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**10,024**	9,604	**19,810**	19,393
Equity earnings from associates and joint ventures	**(821)**	(446)	**(1,564)**	(873)
Deferred income taxes (Note 6)	**1,154**	2,905	**934**	1,589
Share-based compensation expense (Note 7)	**1,206**	626	**2,703**	1,078
(Gain) loss on sale of property, plant and equipment	**(23)**	324	**(46)**	364
	28,711	24,765	**53,894**	47,447
Net change in non-cash working capital and other (Note 9)	**(74,839)**	(29,355)	**(107,603)**	(31,070)
Cash (used in) provided by operating activities	**$ (46,128)**	$ (4,590)	**$ (53,709)**	$ 16,377
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (3,537)**	$ (8,683)	**$ (8,656)**	$ (20,217)
Rental equipment (Note 4)	**(8,175)**	(2,932)	**(8,815)**	(5,277)
Proceeds on disposal of:				
Property, plant and equipment	**26**	35	**168**	83
Rental equipment	**2,631**	176	**9,995**	3,214
Change in other investing assets	**1,371**	2,518	**2,750**	4,985
	(7,684)	(8,886)	**(4,558)**	(17,212)
Net change in non-cash working capital and other (Note 9)	**–**	(6)	**–**	77
Cash used in investing activities	**$ (7,684)**	$ (8,892)	**$ (4,558)**	$ (17,135)
Financing Activities				
(Repayment of) proceeds from long-term debt	**$ (15,191)**	$ 32,388	**$ (1,075)**	$ 29,134
Dividends	**(5,448)**	(4,654)	**(10,884)**	(9,292)
Stock option exercises	**554**	212	**2,612**	2,611
Cash (used in) provided by financing activities	**$ (20,085)**	$ 27,946	**$ (9,347)**	$ 22,453
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ 339**	$ 503	**$ 710**	$ 39
(Decrease) increase in cash and cash equivalents	**(73,558)**	14,967	**(66,904)**	21,734
Cash and cash equivalents, beginning of period	**151,642**	87,967	**144,988**	81,200
Cash and cash equivalents, end of period	**$ 78,084**	$ 102,934	**$ 78,084**	$ 102,934

Supplemental cash flow information (Note 9).

See accompanying Notes to the Interim Condensed Financial Statements.

INTERIM CONDENSED FINANCIAL STATEMENTS

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

($ Canadian thousands)	Share capital	Contributed surplus	Retained (deficit) earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Non-controlling interest	Total
At December 31, 2011	$ 207,409	$ 656,536	$ (35,540)	$ 6,881	$ 976	$ 7,857	$ –	$ 836,262
Net earnings	–	–	25,896	–	–	–	–	25,896
Non-controlling interest	–	–	–	–	–	–	77	77
Other comprehensive income	–	–	–	795	101	896	–	896
Effect of stock option plans	4,245	(1,018)	–	–	–	–	–	3,227
Dividends	–	–	(9,310)	–	–	–	–	(9,310)
At June 30, 2012	$ 211,654	$ 655,518	$ (18,954)	$ 7,676	$ 1,077	$ 8,753	$ 77	$ 857,048
At December 31, 2012	$ 212,875	$ 655,879	$ 16,826	$ (11)	$ 1,110	$ 1,099	$ –	$ 886,679
Net earnings	–	–	32,057	–	–	–	–	32,057
Other comprehensive income	–	–	–	5,225	(2,971)	2,254	–	2,254
Effect of stock option plans	4,087	(768)	–	–	–	–	–	3,319
Dividends	–	–	(10,901)	–	–	–	–	(10,901)
At June 30, 2013	**$ 216,962**	**$ 655,111**	**$ 37,982**	**$ 5,214**	**$ (1,861)**	**$ 3,353**	**$ –**	**$ 913,408**

See accompanying Notes to the Interim Condensed Financial Statements.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS

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"). The interim condensed financial statements were approved and authorized for issue by the Board of Directors on August 14, 2013.

(b) Basis of Presentation and Measurement

These interim condensed financial statements for the three and six months ended June 30, 2013 and 2012 were prepared in accordance with IAS 34 and accordingly, should be read together with the annual consolidated financial statements for the year ended December 31, 2012 and the interim condensed financial statements for the period ended March 31, 2013. Certain prior year amounts have been reclassified to conform with the current period's presentation.

These interim condensed financial statements are presented in Canadian dollars rounded to the nearest thousand, 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, 2012, other than those identified below under New Standards, Interpretations and Amendments.

(c) New Standards, Interpretations and Amendments

Effective January 1, 2013, the Company applied the following new IFRS standards for the first time: IFRS 10 *Consolidated Financial Statements,* IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosures of Interests in Other Entities,* IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements* ("IAS 1"). There was no financial impact related to the application of these new Standards. The statements of comprehensive income have been updated to reflect the amendment to IAS 1.

In addition, the Company will be required to adopt IAS 32 *Offsetting Financial Assets and Financial Liabilities,* and IFRS 9 *Financial Instruments* effective January 1, 2014 and January 1, 2015, respectively. IFRS 9 *Financial Instruments* is being published in phases. The Company is in the process of conducting a detailed review of the potential impacts of these new standards as they are issued.

NOTE 2. DISPOSAL OF ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

The European Service and Combined Heat and Power business has been reported as a discontinued operation since the third quarter of 2011, with the assets and related liabilities presented as held for sale. In June 2013, Enerflex completed the sale of the European business. As part of the arrangement, Enerflex transferred specified maintenance contracts, and certain obligations associated with the contracts and employees. The resolution of uncertainties that arise from the terms of the disposal transaction, or from performance obligations existing prior to the sale, could impact the results from discountinued operations over the remainder of 2013.

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

	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Revenues	**$ 4,310**	$ 5,363	**$ 10,229**	$ 16,246
Loss from operations	**$ (1,234)**	$ (7,649)	**$ (1,727)**	$ (8,403)

The following table summarizes cash from discontinued operations:

	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Cash used in operating activities	**$ (2,477)**	$ (1,701)	**$ (1,725)**	$ (1,291)
Cash provided by investing activities	**$ 456**	$ 515	**$ 578**	$ 162

NOTE 3. INVENTORIES

Inventories consisted of the following:

	June 30, 2013	December 31, 2012
Equipment	**$ 11,267**	$ 8,671
Repair and distribution parts	**40,726**	41,411
Direct materials	**27,973**	30,108
Work-in-process	**120,673**	112,514
Total inventories	**$ 200,639**	$ 192,704

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three and six months ended June 30, 2013 was $246.6 million and $538.9 million, respectively, (June 30, 2012 – $288.7 million and $582.1 million, respectively). Cost of goods sold includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount charged to the interim condensed statement of earnings and included in cost of goods sold for the three and six months ended June 30, 2013 was $0.3 million and $1.1 million, respectively (June 30, 2012 – ($0.1) million and $0.1 million, respectively).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and six months ended June 30, 2013, the Company acquired $3.5 million and $8.7 million in property, plant and equipment, respectively, (June 30, 2012 - $8.7 million and $20.2 million) and $8.2 million and $8.8 million in rental equipment, respectively (June 30, 2012 - $3.0 million and $5.3 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended June 30, 2013 was $7.0 million (June 30, 2012 - $6.6 million) of which $4.9 million was included in cost of goods sold and $2.1 million was included in selling and administrative expenses (June 30, 2012 - $4.8 million and $1.8 million respectively).

Depreciation of property, plant and equipment and rental equipment included in earnings for the six months ended June 30, 2013 was $13.6 million (June 30, 2012 – $13.5 million) of which $9.5 million was included in cost of goods sold and $4.1 million was included in selling and administrative expenses (June 30, 2012 – $10.2 million and $3.3 million respectively).

NOTE 5. LONG-TERM DEBT

At June 30, 2013, the Company had $8.1 million cash drawings against the syndicated revolving credit facilities ("Bank Facilities") (December 31, 2012 - $8.8 million). The weighted average interest rate on the Bank Facilities for the six months ended June 30, 2013 was 3.04% (December 31, 2012 - 2.99%).

During the second quarter, the Company reached an agreement with its lenders to extend the maturity date of the Bank Facilities. The amount available under the Bank Facilities remains unchanged at $345 million and now has a maturity date of June 1, 2017, which may be extended annually on or before the anniversary date with the consent of the lenders.

In addition, the Company extended the maturity date of the letters of credit (the "Bi-Lateral") by one year. The amount available under the Bi-Lateral remains unchanged at $50.0 million and now has a maturity date of June 1, 2015, which may be extended annually with the consent of the lender.

The Company also secured a $10.0 million dollar on-demand revolving letter of credit facility with one of the lenders in its Back Facilities syndicate for purposes of issuing letters of credit in foreign jurisdictions.

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

	June 30, 2013	December 31, 2012
Drawings on Bank Facilities	**$ 8,073**	$ 8,835
Notes due June 22, 2016	**50,500**	50,500
Notes due June 22, 2021	**40,000**	40,000
Deferred transaction costs	**(2,793)**	(2,866)
	$ 95,780	$ 96,469

At June 30, 2013, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $58.6 million, and $40.0 million thereafter.

NOTE 6. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense attributable to continuing operations were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Current income taxes	**$ 5,962**	$ 4,643	**$ 12,251**	$ 11,282
Deferred income taxes	**1,154**	2,905	**934**	1,589
	$ 7,116	$ 7,548	**$ 13,185**	$ 12,871

(b) Reconciliation of Tax Expense

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

	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Earnings before income taxes from continuing operations	**$ 25,521**	$ 26,949	**$ 46,969**	$ 47,170
Canadian statutory rate	**25.0%**	25.0%	**25.0%**	25.0%
Expected income tax provision	**6,380**	6,737	**11,742**	11,793
Add (deduct):				
Earnings taxed in foreign jurisdictions	**863**	544	**1,650**	1,013
Expenses not deductible for tax purposes	**128**	211	**252**	326
Other	**(255)**	56	**(459)**	(261)
Income tax expense from continuing operations	**$ 7,116**	$ 7,548	**$ 13,185**	$ 12,871

The Canadian Statutory rate is the aggregate of the Canadian Federal income tax rate of 15.0% (2012 - 15.0%) and the Provincial income tax rate of 10.0% (2012 - 10.0%).

NOTE 7. SHARE-BASED COMPENSATION

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

	Three months ended June 30, **2013**	2012	Six months ended June 30, **2013**	2012
Equity settled share-based payments	**$ 350**	$ 285	**$ 707**	$ 616
Cash settled share-based payments	**856**	341	**1,996**	462
Total	**$ 1,206**	$ 626	**$ 2,703**	$ 1,078

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

(a) Equity Settled Share-Based Payments

	June 30, 2013		December 31, 2012	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**2,655,575**	**$ 11.71**	2,563,985	$ 11.53
Granted	**–**	**–**	486,915	11.78
Exercised	**(238,880)**	**10.93**	(331,200)	10.26
Forfeited	**(4,200)**	**11.73**	(62,700)	12.67
Expired	**(4,350)**	**11.72**	(1,425)	9.57
Options outstanding, end of period	**2,408,145**	**$ 11.79**	2,655,575	$ 11.71
Options exercisable, end of period	**1,101,370**	**$ 11.79**	1,100,800	$ 11.60

The following table summarizes options outstanding and exercisable at June 30, 2013:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average exercise price
$9.61 – $11.75	1,163,587	4.03	$ 11.08	523,470	$ 10.69
$11.76 – $12.96	1,244,558	4.11	12.46	577,900	12.78
Total	2,408,145	4.07	$ 11.79	1,101,370	$ 11.79

(b) Cash Settled Share-Based Payments

The Company did not grant any PSUs, RSUs or SARs during the first six months of 2013. The RSU and PSU holders had dividends credited to their account during the period.

During the three and six months ended June 30, 2013, directors fees and executive bonuses elected to be received in DSUs totalled $0.2 million and $1.0 million, respectively (June 30, 2012 - $0.3 million and $0.5 million respectively).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2013	109,818	$ 11.46
Granted	74,854	13.16
In lieu of dividends	1,281	13.17
DSUs outstanding, June 30, 2013	185,953	$ 12.16

NOTE 8. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at June 30, 2013 were designated in the same manner as they were at December 31, 2012. Accordingly, with the exception of Company's Unsecured Notes ("Notes"), the estimated fair values of financial instruments approximated the carrying values. The carrying value and estimated fair value of the Notes as at June 30, 2013 was $90.5 million and $95.1 million, respectively (December 31, 2012 - $90.5 million and $97.8 million, respectively). The fair value of these Notes at June 30, 2013 was determined on a discounted cash flow basis with a weighted average discount rate of 4.26% (December 31, 2012 – 3.85%). The cash and cash equivalents balance at June 30, 2013 included $5.0 million of highly liquid short-term investments with a maturity of three months or less (December 31, 2012 – nil).

Derivative Financial Instruments and Hedge Accounting

Foreign exchange contracts are transacted with financial institutions to hedge foreign currency denominated obligations and cash receipts related to purchases of inventory and sales of products. The following table summarizes the Company's commitments to buy and sell foreign currencies as at June 30, 2013.

		Notional amount	Maturity
Canadian dollar denominated contracts			
Purchase contracts	USD	**17,283**	July 2013 – May 2014
	EUR	**103**	October 2013
	AUD	**14,100**	July 2013
Sales contracts	USD	**68,779**	July 2013 – January 2015
	EUR	**9,816**	July 2013
	AUD	**28,200**	July 2013
Australian dollar denominated contracts			
Purchase contracts	USD	**1,260**	July 2013
U.S. dollar denominated contracts			
Purchase contracts	AUD	**19,340**	July 2013 – May 2014
British Pound denominated contracts			
Purchase contracts	EUR	**1,600**	July 2013 – April 2014

At June 30, 2013, the fair value of derivative financial instruments classified as financial assets was $1.0 million, and as financial liabilities was $2.6 million (December 31, 2012 - $1.7 million and $0.6 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. The following table shows the Company's sensitivity to a 5% weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and British pound. A 5% strengthening of the Canadian dollar would have an equal and opposite effect.

Canadian dollar weakens by 5 %	USD	AUD	GBP
Earnings from foreign operations			
Net earnings before tax	**$ 1,619**	**$ 668**	**$ 25**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 6,051**	**$ 1,207**	**$ 254**
Financial instruments held in Canadian operations			
Net earnings	**$ 580**	**$ 44**	**$ –**

Interest Rate Risk

The Company's liabilities include long-term debt subject to fluctuations in interest rates. The Company's Notes outstanding at June 30, 2013 were at fixed interest rates and therefore the related interest expense would not be impacted by fluctuations in interest rates. The Company's Bank Facilities however, are subject to changes in market interest rates. For each 1% change in the rate of interest on the Bank Facilities, the change in interest expense for the period ended June 30, 2013 would be approximately $0.1 million. All interest charges are recorded on the interim condensed statement of earnings as Finance Costs.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its committed facility with a U.S. lender ("U.S. Facilities"), and Bank Facilities for future drawings to meet the Company's future growth targets. As at June 30, 2013, the Company held cash and cash equivalents of $78.1 million and had drawn $8.1 million against the Bank Facilities, leaving it with access to $302.3 million for future drawings.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows including interest associated with the maturity of the Company's financial liabilities as at June 30, 2013:

	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**	**Total**
Derivative financial instruments				
Foreign currency forward contracts	$ 2,600	$ –	$ –	$ 2,600
Accounts payable and accrued liabilities	123,888	–	–	123,888
Long-term debt – Bank Facilities	–	–	8,073	8,073
Long-term debt – Notes	–	–	90,500	90,500
Other long-term liabilities	–	–	4,934	4,934

The Company expects that continued cash flows from operations in 2013, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital, and capital assets.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

NOTE 9. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Cash used in changes of non-cash working capital				
Accounts receivable	**$ (61,379)**	$ (76,931)	**$ (48,240)**	$ (59,776)
Inventories	**(30,410)**	(23,053)	**(7,934)**	(16,977)
Accounts and taxes payable, accrued liabilities and deferred revenue	**10,906**	70,371	**(58,979)**	45,453
Foreign currency and other	**6,044**	252	**7,550**	307
	$ (74,839)	$ (29,361)	**$ (107,603)**	$ (30,993)

Cash paid during the period:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Interest	**$ 2,502**	$ 2,697	**$ 2,414**	$ 3,123
Taxes	**12,136**	10,022	**15,391**	10,915

NOTE 10. REVENUES

Revenues by geographic location, which is attributed by destination of sale, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	**2013**	2012
Australia	**$ 48,965**	$ 73,875	**$ 139,108**	$ 134,384
Canada	**99,053**	101,100	**188,505**	249,752
Nigeria	**2,785**	15,994	**5,069**	28,202
Oman	**34,169**	35,300	**62,634**	38,222
United States	**111,081**	107,226	**225,984**	215,811
Other	**14,984**	21,141	**42,999**	43,996
Total Revenues	**$ 311,037**	$ 354,636	**$ 664,299**	$ 710,367

NOTE 11. SEASONALITY

The oil and natural gas service sector in Canada and Northern U.S. 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. Rentals revenues are also impacted by both the Company's and its customers' capital investment decisions. The Southern U.S. and Latin America, and International segments are not significantly impacted by seasonal variations. Variations from these trends usually occur when hydrocarbon energy fundamentals are either improving or deteriorating.

NOTE 12. SEGMENTED INFORMATION

The Company has three reportable operating segments as outlined below, each supported by the Corporate office. Corporate overheads are allocated to the operating segments based on revenue. For each of the operating segments, the Company's Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the six months ended June 30, 2013, the Company had no individual customer which accounted for more than 10% of its revenues.

Effective January 1, 2013, the reporting for Enerflex's Production and Processing division was changed from the International reportable segment to the Canada and Northern U.S. segment. Prior period segmented information has been reclassified to conform with the current period's presentation.

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

- > Canada and Northern U.S. generates revenue from manufacturing (primarily compression equipment), service and rentals.
- > Southern U.S. and Latin America generates revenue from the manufacture of natural gas compression equipment and process equipment in addition to generating revenue from product support services.
- > International generates revenue from manufacturing primarily process equipment, service and rentals.

	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
Three months ended June 30,	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Segment revenue	**$ 137,859**	$ 162,593	**$ 102,335**	$ 102,775	**$ 89,483**	$ 108,544	**$ 329,677**	$ 373,912
Intersegment revenue	**(15,463)**	(19,149)	**(3,177)**	(21)	**–**	(106)	**(18,640)**	(19,276)
External revenue	**$ 122,396**	$ 143,444	**$ 99,158**	$ 102,754	**$ 89,483**	$ 108,438	**$ 311,037**	$ 354,636
Operating income	**$ 5,213**	$ 8,948	**$ 11,402**	$ 12,944	**$ 9,621**	$ 6,532	**$ 26,236**	$ 28,424
	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
Six months ended June 30,	**2013**	2012	**2013**	2012	**2013**	2012	**2013**	2012
Segment revenue	**$ 290,860**	$ 359,683	**$ 226,642**	$ 215,921	**$ 207,648**	$ 168,075	**$ 725,150**	$ 743,679
Intersegment revenue	**(48,441)**	(32,544)	**(12,125)**	(327)	**(285)**	(441)	**(60,851)**	(33,312)
External revenue	**$ 242,419**	$ 327,139	**$ 214,517**	$ 215,594	**$ 207,363**	$ 167,634	**$ 664,299**	$ 710,367
Operating income	**$ 8,416**	$ 21,262	**$ 24,362**	$ 22,713	**$ 15,471**	$ 5,620	**$ 48,249**	$ 49,595
	Canada and Northern U.S.		Southern U.S. and Latin America		International		Total	
As at	**June 30, 2013**	Dec. 31, 2012	**June 30, 2013**	Dec. 31, 2012	**June 30, 2013**	Dec. 31, 2012	**June 30, 2013**	Dec. 31 2012
Segment assets	**$ 391,422**	$ 450,487	**$ 287,948**	$ 273,458	**$ 281,325**	$ 273,099	**$ 960,695**	$ 997,044
Goodwill	**269,880**	268,836	**56,060**	53,220	**127,152**	135,152	**453,092**	457,208
Corporate	**–**	–	**–**	–	**–**	–	**(53,132)**	(69,163)
	$ 661,302	$ 719,323	**$ 344,008**	$ 326,678	**$ 408,477**	$ 408,251	**$1,360,655**	$ 1,385,089
Assets held for sale	**–**	–	**–**	–	**–**	4,175	**–**	4,175
Total segment assets	**$ 661,302**	$ 719,323	**$ 344,008**	$ 326,678	**$ 408,477**	$ 412,426	**$1,360,655**	$ 1,389,264

NOTE 13. SUBSEQUENT EVENT

Subsequent to June 30, 2013, the Company declared a dividend of $0.07 per share, payable on October 3, 2013, to shareholders of record on August 27, 2013.

DIRECTORS AND OFFICERS

Robert S. Boswell [1, 4]
Director
Denver, CO

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

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

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

H. Stanley Marshall [3]
Director
Paradise, NL

Stephen J. Savidant
Chairman
Calgary, AB

Michael A. Weill [6]
Director
Houston, TX

Jerauld Fraelic
President, Americas
Houston, TX

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

Carol Ionel
Vice President,
Human Resources
Calgary, AB

William Moore
President, International
Calgary, AB

Greg Stewart
Vice President and
Chief Information Officer
Calgary, AB

1 Chair of the Nominating and Corporate Governance Committee

2 Member of the Nominating and Corporate Governance Committee

3 Chair of the Human Resources and Compensation Committee

4 Member of the Human Resources and Compensation Committee

5 Chair of the Audit Committee

6 Member of the Audit Committee

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Web: www.openboard.info/ener/

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

Canadian Stock Transfer Company Inc.
Calgary, AB Canada

For shareholder inquiries:
Canadian Stock Transfer Company Inc.
320 Bay Street
Toronto, ON M5H 4A6 Canada

Mail:
PO Box 700
Station B
Montreal, QC H3B 3K3 Canada

Tel: +1.800.387.0825 or +1.416.682.3860
Fax: +1.888.249.6189 North America

Web: www.canstockta.com

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

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Calgary, AB Canada

Bankers
The Toronto Dominion Bank
Calgary, AB Canada

The Bank of Nova Scotia
Toronto, ON Canada

Investor Relations
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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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