

ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 4, 2022

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company" or "we" or "our") should be read in conjunction with the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 and 2021, the Company's 2021 Annual Report, the Annual Information Form for the year ended December 31, 2021, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

The MD&A focuses on information and key statistics from the interim condensed consolidated financial statements, and considers known risks and uncertainties relating to the oil and gas services sector. This discussion should not be considered all-inclusive, as it excludes possible future changes that may occur in general economic, political, and environmental conditions. Additionally, other elements may or may not occur which could affect industry conditions and/or Enerflex in the future. Additional information relating to the Company can be found in the Company's Annual Information Form and Management Information Circular, which are available on SEDAR at www.sedar.com.

FINANCIAL OVERVIEW

	Three months ended	
	2022	March 31, 2021 ¹
<i>(\$ Canadian thousands, except percentages)</i>		
Revenue	\$ 323,069	\$ 203,205
Gross margin	53,643	45,476
Selling and administrative expenses ("SG&A")	46,804	38,455
Operating income	6,839	7,021
Earnings before finance costs and income taxes ("EBIT")	7,123	6,584
Net earnings (loss)	\$ (369)	\$ 3,003
Key Financial Performance Indicators²		
Engineered Systems bookings	\$ 236,870	\$ 98,692
Engineered Systems backlog	619,988	169,433
Recurring revenue growth	13.5%	(6.7)%
Gross margin as a percentage of revenue	16.6%	22.4%
EBIT as a percentage of revenue ³	5.2%	7.1%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	\$ 29,013	\$ 27,656
Adjusted EBITDA	\$ 38,739	\$ 29,611
Return on capital employed ("ROCE") ³	3.5%	4.3%
Rental horsepower	833,872	767,842

¹ Certain prior period amounts have been reclassified between COGS and SG&A following management's continuing review of the function of expenditures incurred. Please refer to Note 1 of the interim condensed consolidated financial statements for additional details.

² These key financial performance indicators are Non-IFRS measures. Further detail is provided in the Non-IFRS Measures section.

³ Determined by taking the trailing 12-month period.

FIRST QUARTER 2022 OVERVIEW

For the three months ended March 31, 2022:

- Bookings totaled \$236.9 million, up significantly from \$98.7 million in the same period last year, reflecting the increased activity in our Engineered Systems business. Movement in foreign exchange rates resulted in a decrease of \$6.0 million on foreign currency denominated backlog during the first quarter of 2022.
- Engineered Systems backlog at March 31, 2022 is \$620.0 million compared to the backlog of \$557.5 million at December 31, 2021. This \$62.5 million increase is due to the higher Engineered Systems bookings outpacing revenue recognized in the period, offset by unfavourable foreign exchange impacts of \$6.0 million.
- The Company experienced a healthy increase in revenue in the current quarter at \$323.1 million compared to \$203.2 million in the comparable quarter. This increase is mainly due to a stronger opening backlog, revenue recognition on the previously announced 10-year natural gas infrastructure project, higher rental utilizations, and the increased volume of work in all segments. Gross margin was \$53.6 million or 16.6 percent for the first quarter of 2022 compared to \$45.5 million or 22.4 percent for the comparable period. The higher gross margin in the current quarter is primarily due to the increased volume of work. However, the Company reported a lower gross margin percent due to a shift in the product mix, less government grants received, and competitive pricing pressures on materials and labour.
- SG&A costs of \$46.8 million in the first quarter of 2022 were up from \$38.5 million in the same period last year. The increase is primarily due to the transaction costs associated with the pending Exterran transaction and the reduced cost recoveries from government subsidies. These increases are partially offset by lower share-based compensation.
- Operating income was lower than the prior period, primarily due to higher SG&A and competitive margin pressures, partially offset by increased gross margin from higher revenue. Excluding the transaction costs, the Company's operating income would have been higher than the prior period.
- The Company invested \$29.2 million towards construction of a natural gas infrastructure asset that was awarded in the fourth quarter of 2021 and will be accounted for as a finance lease. The Company also invested \$2.5 million in rental assets; the majority used to fund the organic expansion of the USA contract compression fleet. At March 31, 2022, the USA contract compression fleet totaled approximately 405,000 horsepower with an average fleet utilization of 91 percent for the quarter.
- The Company continues to maintain a strong balance sheet and our bank-adjusted net debt to EBITDA ratio is 1.43:1, compared to a maximum ratio of 3:1. This leverage ratio excludes the non-recourse debt. Enerflex has substantial undrawn credit capacity and cash on hand.
- Subsequent to March 31, 2022, Enerflex declared a quarterly dividend of \$0.025 per share, payable on July 7, 2022, to shareholders of record on May 19, 2022. The Board will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

ADJUSTED EBITDA

The Company's results include items that are unique and items that management and users of the financial statements adjust for when evaluating the Company's results. The presentation of Adjusted EBITDA should not be considered in isolation from EBIT or EBITDA as determined under IFRS. Adjusted EBITDA may not be comparable to similar measures presented by other companies and should not be considered in isolation or as a replacement for measures prepared as determined under IFRS.

The items that have historically been adjusted for presentation purposes relate generally to five categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) severance costs associated with restructuring activities and cost reduction activities undertaken in response to the COVID-19 pandemic; 3) grants received from Federal governments in response to the COVID-19 pandemic; 4) transaction costs related to M&A activity; and 5) share-based compensation. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on factors that are not specific to the long-term performance of the Company. The disposal of idle facilities is isolated within Adjusted EBITDA as they are not reflective of the ongoing operations of the Company and are idled as a result of restructuring activities.

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

	Three months ended March 31, 2022			
(\$ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	\$ 7,123	\$ 345	\$ 10,282	\$ (3,504)
Transaction costs	5,677	2,591	1,921	1,165
Share-based compensation	4,049	1,817	1,522	710
Depreciation and amortization	21,890	11,695	8,230	1,965
Adjusted EBITDA	\$ 38,739	\$ 16,448	\$ 21,955	\$ 336

	Three months ended March 31, 2021			
(\$ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	\$ 6,584	\$ 366	\$ 4,703	\$ 1,515
Severance costs in COGS and SG&A	749	112	202	435
Government grants in COGS and SG&A	(4,061)	(504)	-	(3,557)
Share-based compensation	5,267	2,184	2,102	981
Depreciation and amortization	21,072	10,204	8,884	1,984
Adjusted EBITDA	\$ 29,611	\$ 12,362	\$ 15,891	\$ 1,358

Please refer to the section "Segmented Results" for additional information about results by geographic location.

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

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

(\$ Canadian thousands)	Three months ended	
	2022	March 31, 2021
Bookings		
USA	\$ 177,584	\$ 42,736
Rest of World	29,928	41,489
Canada	29,358	14,467
Total bookings	\$ 236,870	\$ 98,692

(\$ Canadian thousands)	March 31,	December 31,
	2022	2021
Backlog		
USA	\$ 362,889	\$ 262,937
Rest of World	160,291	179,655
Canada	96,808	114,957
Total backlog	\$ 619,988	\$ 557,549

The Company managed to secure significant Engineered Systems projects during the first quarter of 2022 leading to a much-improved bookings total when compared to the comparable quarter. The Company's ability to secure a higher volume of projects is a function of robust supply and demand fundamentals in the oil and gas industry. However, Enerflex's customers remain focused on capital discipline and there is some uncertainty in the pace of recovery from pandemic lows, as well as uncertainty around energy development due to certain macro economic pressures in the regions we operate, but Enerflex is cautiously optimistic about the trajectory of the recovery.

Backlog at March 31, 2022 is higher than at December 31, 2021 due to Engineered Systems bookings outpacing revenue recognized in the period, offset by unfavourable foreign exchange impacts. The movement in exchange rates resulted in a decrease of \$6.0 million during the first three months of 2022 on foreign currency denominated backlog, compared to a decrease of \$1.3 million in the same period of 2021.

SEGMENTED RESULTS

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

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

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



USA SEGMENT RESULTS

(\$ Canadian thousands)	Three months ended	
	2022	March 31, 2021
Engineered Systems bookings	\$ 177,584	\$ 42,736
Engineered Systems backlog	362,889	90,274
Segment revenue	\$ 182,755	\$ 84,965
Intersegment revenue	(35,291)	(3,019)
Revenue	\$ 147,464	\$ 81,946
Revenue - Engineered Systems	\$ 77,632	\$ 29,240
Revenue - Service	\$ 42,249	\$ 30,114
Revenue - Energy Infrastructure	\$ 27,583	\$ 22,592
Operating income	\$ 345	\$ 366
EBIT	\$ 345	\$ 366
EBITDA	\$ 12,040	\$ 10,570
USA revenue as a % of consolidated revenue	45.6%	40.3%
Recurring revenue growth	32.5%	(14.3)%
Operating income as a % of revenue	0.2%	0.4%
EBIT as a % of revenue	0.2%	0.4%
EBITDA as a % of revenue	8.2%	12.9%

USA had total Engineered Systems bookings of \$177.6 million in the first quarter of 2022, which is a healthy increase of \$134.8 million compared to the same period in the prior year. The Company was able to book some significant projects as a result of improved activity levels in the oil and gas industry as our customers increase their capital spending. While activity levels are improving, the competition for bookings and pricing pressures remains high, which will continue to put pressure on margins on new bookings, even as the bookings recover.

Revenue increased by \$65.5 million in the first quarter compared to last year. This increase is primarily due to higher Engineered Systems revenue on improved activity levels and stronger opening backlog; higher Service revenues on increased volume of work when compared to the same quarter last year which was impacted by inclement weather; and higher Energy Infrastructure revenue from improved utilizations.

SG&A was higher in the first quarter of 2022 compared to the same period last year as a result of the allocated transaction costs related to the previously announced Exterran transaction, and higher total compensation due to increased headcount.

Operating income for the current quarter was slightly lower than the same quarter last year due to higher SG&A, partially offset by improved revenues in all three product lines.

At March 31, 2022, the USA contract compression fleet totaled approximately 405,000 horsepower, compared to approximately 400,000 horsepower at December 31, 2021. The average utilization of the USA contract compression fleet for the three months ended March 31, 2022 was 91 percent, compared to 82 percent in the same quarter last year.

REST OF WORLD SEGMENT RESULTS

(\$ Canadian thousands)	Three months ended	
	2022	March 31, 2021
Engineered Systems bookings	\$ 29,928	\$ 41,489
Engineered Systems backlog	160,291	49,223
Segment revenue	\$ 109,394	\$ 70,517
Intersegment revenue	(78)	(6)
Revenue	\$ 109,316	\$ 70,511
Revenue - Engineered Systems	\$ 49,292	\$ 8,442
Revenue - Service	\$ 23,034	\$ 25,911
Revenue - Energy Infrastructure	\$ 36,990	\$ 36,158
Operating income	\$ 10,282	\$ 4,728
EBIT	\$ 10,282	\$ 4,703
EBITDA	\$ 18,512	\$ 13,587
ROW revenue as a % of consolidated revenue	33.8%	34.7%
Recurring revenue growth	(3.3)%	(2.4)%
Operating income as a % of revenue	9.4%	6.7%
EBIT as a % of revenue	9.4%	6.7%
EBITDA as a % of revenue	16.9%	19.3%

Engineered Systems bookings were lower in the first quarter of 2022 compared to the first quarter of 2021 by \$11.6 million. The bookings in the current quarter are coming from Latin America. The significant backlog for the current quarter includes the previously announced 10-year natural gas infrastructure contracts that were awarded to Enerflex during the fourth quarter of 2021, which has been determined to be accounted for as an Engineered Systems sale under finance lease accounting. Engineered Systems bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent.

During the three months ended March 31, 2022, Rest of World revenues increased by \$38.8 million when compared to the same period last year. This is driven by the increase in Engineered Systems revenue, primarily from a previously announced 10-year natural gas infrastructure project in the Middle East that began operations at the beginning of the year and accounted for as a finance lease. Energy Infrastructure revenues slightly increased during the first quarter of 2021 helped by the interest income on the aforementioned finance lease project, offset by lower Service revenues.

The slight increase in SG&A costs are primarily due to the segment's allocated share of transactions costs related to the previously announced Exterran transaction, and increased total compensation expense, partially offset by lower share-based compensation on mark-to-market movement, and foreign exchange impacts.

Operating income increased by \$5.6 million in the first quarter of 2022 compared to the same period in 2021, primarily due to higher gross margins on higher Engineered Systems and Energy Infrastructure revenue, partially offset by slightly higher SG&A.

CANADA SEGMENT RESULTS

(\$ Canadian thousands)	Three months ended	
	2022	March 31, 2021
Engineered Systems bookings	\$ 29,358	\$ 14,467
Engineered Systems backlog	96,808	29,936
Segment revenue	\$ 67,124	\$ 51,629
Intersegment revenue	(835)	(881)
Revenue	\$ 66,289	\$ 50,748
Revenue - Engineered Systems	\$ 47,507	\$ 34,550
Revenue - Service	\$ 17,903	\$ 14,511
Revenue - Energy Infrastructure	\$ 879	\$ 1,687
Operating income (loss)	\$ (3,788)	\$ 1,927
EBIT	\$ (3,504)	\$ 1,515
EBITDA	\$ (1,539)	\$ 3,499
Canada revenue as a % of consolidated revenue	20.5%	25.0%
Recurring revenue growth	16.0%	6.3%
Operating income as a % of revenue	(5.7)%	3.8%
EBIT as a % of revenue	(5.3)%	3.0%
EBITDA as a % of revenue	(2.3)%	6.9%

Bookings in the first quarter of 2022 increased to \$29.4 million in the first quarter of 2022 from \$14.9 million in the comparable period. The Company remains cautiously optimistic as the recovery in this segment has been slower than the other segments. The Company is confident that further economic recovery will continue to translate into new bookings throughout 2022 and remains well positioned to capitalize on pending projects. Competition for bookings and pricing pressures for the Canadian region continue to remain high, which will continue to put pressure on margins on new bookings.

Revenue increased by \$15.5 million during the first quarter of 2022 compared to the same period last year primarily due to higher Engineered Systems revenue based on the strength of higher opening backlog. Service revenues have increased due to a number of maintenance service agreements and large parts sales. Energy Infrastructure revenue decreased due to lower utilization of available rental units based on lower demand. Canada did see a decrease in gross margins in the first quarter of 2022 compared to the same period last year, primarily driven by reduced government grants; continued lower margin projects; and margin erosion from unanticipated cost overruns.

SG&A was higher in the first quarter of 2022 compared to the same period last year as a result of the segment's allocated share of transactions costs related to the previously announced Exterran transaction, and reduced government grants.

The Canadian segment recorded an operating loss of \$3.8 million for the first quarter of 2022 compared to operating income of \$1.9 million in the same period of 2021. The decrease is primarily due to lower gross margins and higher SG&A costs as discussed above.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Energy Infrastructure. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, construction, installation, and the start-up of equipment. The Service product line provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services. The Energy Infrastructure product line encompasses a fleet of natural gas compression, processing, and electric power equipment totalling over 830,000 horsepower available for rent or lease; generating revenue from rental and lease agreements, and the sale of rental equipment to customers. In addition to Enerflex's rental fleet, the Company's Energy Infrastructure product line provides customers with personnel, equipment, tools, materials, and supplies to meet their natural gas compression, processing, and electric power needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services, including providing operation and maintenance as part of a BOOM agreement.

Recurring revenue is comprised of revenue from the Service and Energy Infrastructure product lines, which are typically contracted and extend into the future. The Company aims to diversify and expand Service and Energy Infrastructure offerings, which we believe offer longer-term stability in earnings compared to Engineered Systems revenue, which historically has been dependent on cyclical demand for new compression, process, and electric power equipment. While individual Service and Energy Infrastructure contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude these product lines from being considered recurring in nature.

	Three months ended March 31, 2022			
(\$ Canadian thousands)	Total	Engineered Systems	Service	Energy Infrastructure
Revenue	\$ 323,069	\$ 174,431	\$ 83,186	\$ 65,452
Cost of goods sold:				
Operating expenses	250,541	154,751	70,256	25,534
Depreciation and amortization	18,885	2,446	2,679	13,760
Gross margin	\$ 53,643	\$ 17,234	\$ 10,251	\$ 26,158
Gross margin %	16.6%	9.9%	12.3%	40.0%

	Three months ended March 31, 2021 ¹			
(\$ Canadian thousands)	Total	Engineered Systems	Service	Energy Infrastructure
Revenue	\$ 203,205	\$ 72,232	\$ 70,536	\$ 60,437
Cost of goods sold:				
Operating expenses	139,935	61,511	55,911	22,513
Depreciation and amortization	17,794	2,072	2,171	13,551
Gross margin	\$ 45,476	\$ 8,649	\$ 12,454	\$ 24,373
Gross margin %	22.4%	12.0%	17.7%	40.3%

¹ Certain prior period amounts have been reclassified between COGS and SG&A. Please refer to Note 1 of the interim condensed consolidated financial statements for additional details.

INCOME TAXES

Income tax expense totaled \$3.6 million for the first quarter of 2022, compared to a recovery of \$1.4 million in the same period of 2021. Income tax expense for the first quarter of 2022 was due to the Company no longer recognizing any deferred tax asset in Canada and the effect of earnings taxed in foreign jurisdictions, partially offset by the exchange rate effects on tax basis. The Company is no longer recognizing deferred tax recoveries in Canada, as it is unlikely that sufficient future taxable income will be available to offset against the existing deductible temporary differences and any unused Canadian tax losses or credits.

EXTERRAN TRANSACTION UPDATE

On January 24, 2022 the Company announced an all-share acquisition of Exterran in which Enerflex would acquire all of the outstanding shares of common stock of Exterran by issuing 1.021 common shares of Enerflex in exchange for each share of Exterran. The Company will continue to preserve the strength of its balance sheet and maximize cash flow through disciplined capital spending, with investments prioritizing higher-margin, less-cyclical businesses with attractive returns. Once closed, the acquisition of Exterran by Enerflex will result in accelerated growth of recurring revenues, which are expected to account for approximately 70 percent of the combined business' pro forma gross margin, as well as approximately doubling EBITDA. Leverage of the Company will temporarily rise to fund four major in-flight projects. We expect these projects to be completed in late 2022 through to mid-2023 and excess free cash flow after completion of these projects will be used to lower leverage ratios. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

The closing of the transaction is subject to obtaining regulatory approvals and approval by shareholders of Exterran and Enerflex, and satisfying other conditions that are customary for a transaction of this type, which are fully described in the Merger Agreement that has been entered into by Enerflex and Exterran and is available under our electronic profile on SEDAR at www.sedar.com as well as Enerflex's website. The Company continues to progress all matters that need to be addressed to close the Transaction, including the submission of required notifications and the filing of all applications that are necessary to obtain the required regulatory approvals and clearances. A number of the required regulatory approvals have already been obtained and we are currently not aware of any reason that would result in our not obtaining all of the required regulatory approvals.

Following the execution of the Merger Agreement by Enerflex and Exterran, the Company was made aware of a ruling issued by a Local Labor Board in the State of Tabasco in Mexico which awarded a former employee of one of Exterran's subsidiaries approximately \$119 million USD in connection with a dispute relating to such employee's severance pay following his termination of employment. Exterran has advised that it is of the view that the Local Labor Board erred in granting such order and the employee's case is without merit and that although Exterran may incur some loss with respect to such matter, the ultimate resolution of this matter will not be material to Exterran. We are currently monitoring this dispute.

In the coming months, Enerflex expects to deliver to its shareholders an information circular (the "Circular") for the special meeting of Enerflex shareholders that will consider the Transaction. The Circular will contain a detailed description of the Transaction and will be available under our electronic profile on SEDAR at www.sedar.com as well as Enerflex's website. All Enerflex shareholders are urged to read the Circular once available as it will contain important information concerning the Transaction. Pending satisfaction of the terms and conditions as set forth in the Merger Agreement, Enerflex anticipates closing the Transaction during the second half of 2022.

During the quarter, Enerflex also completed the syndication of a new senior secured revolving credit facility for a 3-year term. Enerflex elected to upsize the credit facility from \$600 million USD to \$700 million USD to provide enhanced liquidity and is in addition to the fully committed \$925 million 5-year bridge loan facility. Additionally, S&P Global Ratings ("S&P") and Fitch Ratings Ltd. ("Fitch") have each provided an initial credit rating for the pro forma combination of Enerflex and Exterran. S&P's initial corporate credit rating is BB- with a stable outlook and Fitch's initial long-term issuer rating is BB- with a stable outlook. The ratings will be used to support our previously announced high yield debt offering that we intend to pursue.

OUTLOOK

The outlook for Exploration & Production (“E&P”) capital spending has been steadily improving since mid-2020 when budgets were reset during the COVID-19 pandemic. Commodity prices have risen on strengthening supply/demand fundamentals and a renewed focus on energy security in light of Russia’s invasion of Ukraine, and E&P and Midstream balance sheets and free-cash-flow positions have been improving. Oil and gas demand has been recovering, despite some continued effects of the COVID-19 pandemic and evolving regulatory risks associated with a continued focus on ESG factors. As a result, Enerflex expects customer capital expenditures to increase modestly as fundamentals continue to improve. This trend can be seen in Enerflex’s bookings which have trended upward since the third quarter of 2020. Although customers continue to show discipline in spending within their cash flow and returning money to shareholders, we are cautiously optimistic that this trend should continue given the current fundamentals outlook.

In addition, an “Energy Transition” towards less carbon-intensive energy sources is presenting new opportunities for the Company in several regions, leveraging the strength of Enerflex in providing modularized engineer-to-order process solutions for the energy industry. The Company is working with existing and new customers to advance projects that: 1) decarbonize core operations; 2) providing a path for electrification; 3) capture carbon; 4) build infrastructure for Renewable Natural Gas (RNG) and biofuels; and 5) new hydrogen opportunities.

Enerflex remains focused on providing a safe working environment for all employees, while positioning the Company to capitalize on increased industry spending. Given the current environment, the Company is carefully assessing project spending, with a focus on ensuring future projects provide maximum returns on invested capital. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas, particularly as an energy transition fuel to support decarbonization. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company’s products and services in future periods.

OUTLOOK BY SEGMENT

USA

The Company continues to see improving fundamentals that should maintain healthy activity for Engineered Systems. Natural gas prices have remained over \$6/MMBTU and oil prices have steadily hovered around \$100/bbl despite coordinated releases from strategic reserves globally. In North America, this improving backdrop has resulted in rig counts continuing to increase. While operator balance sheets have strengthened, there is still some hesitation to increase spending too quickly due to investor sentiment and some uncertainty in demand recovery due to economic conditions. E&P companies are also facing pressure to increase cash returns to shareholders through increased dividends and share buy-backs. In aggregate, however, the Company is seeing improved operator spending and, therefore the demand for Enerflex products and services is growing.

Recurring revenues, both in terms of after-market service and contract compression demand, have proven stable in terms of overall performance. Utilization rates in contract compression have been restored to pre-pandemic levels. Strengthening after-market service customer demand for equipment maintenance has been tempered with broad-based OEM supply chain challenges with timely parts delivery, along with inflationary operating cost pressures. While U.S. oil and gas production has been impacted by global events, the Company believes that the increased presence of larger, more patient producers in basins such as the Permian is supportive for long-term value creation.

Energy Transition could provide significant opportunity for the Company in the USA. Our customers have started to adopt electric motor drive compression which entirely eliminates Scope 1 emissions from engine driven compression. In addition, carbon capture is getting additional attention and is supported through the federal government’s 45-Q tax incentive. Low-carbon fuel initiatives are being adopted across the USA which have the potential of increasing demand for the Company’s core competency of technical excellence in providing and maintaining modular equipment solutions.

Rest of World

In the Rest of World segment, the Company expects to continue generating strong recurring revenues in both the Middle East and Latin America regions through its existing rental fleet and new large-scale long-term projects. The Company is happy to state that a previously announced 10-year natural gas infrastructure contract in the Middle East commenced commercial operations at the beginning of 2022. We are also well underway in the construction phase for another previously announced 10-year natural gas infrastructure contract signed in late 2021, which consists of two projects in the Middle East. These investments are on track to become fully operational later in 2022.

The Company continues to see demand for large-scale long-term rental assets and ITK projects in the Middle East, including natural gas-fired power generation. These large-scale assets with long-term contracts can be accounted for as BOOM projects or finance leases. The Company continues to explore new markets and opportunities within this region, focusing on projects containing products engineered and manufactured by Enerflex, that provide long-term, stable cash flows.

In Latin America, the Company secured some rental asset and ITK projects in Argentina, Brazil and Mexico. However, Enerflex remains cautiously optimistic about the outlook in Latin America as many countries have indicated a renewed desire to develop oil and natural gas in recent periods, while also facing certain geopolitical uncertainties. The Company is well positioned to provide products and services throughout the region as activity takes place in its key markets, particularly Argentina, Bolivia, Brazil, Colombia, and Mexico.

In Australia, demand for Enerflex service and maintenance support remains solid. Liquefied natural gas (“LNG”) supply contracts are providing a stable demand for gas from producers. Downward pressure on production costs is increasing customers’ desire to improve equipment reliability and efficiency, and Enerflex is well positioned to support production equipment optimization and improve reliability. Capital equipment demand in the Australian market has seen a slowdown in response to the current economic environment; however, multiple new opportunities have been approved by customers, including an award to package power generation equipment in Enerflex’s Brisbane facility, which will continue to support activity in this region throughout 2022.

Canada

A sustained increase in rig count, as well as favourable oil and gas prices, are positive indicators for this region. Gas egress constraints to international markets appears to be slowing investment in expanding gas gathering and production asset bases. In addition, land use disputes with the indigenous population in Northeastern British Columbia has temporarily halted investment in gas gathering and processing developments. Global supply chain challenges remain a potential threat to timely delivery of products and materials required to execute projects. Natural gas liquids pricing has been performing well, resulting in increased investment in this market. The Company remains well positioned to capitalize on growth in this sector of the market.

The standard gas compression new equipment market remains highly competitive and somewhat commoditised. The Company has secured a number of orders for electric power generation equipment through the first quarter of 2022, delivering on expectations of growth in this part of the business.

The Company continues to evaluate various markets in Energy Transition. For Canada, the Company is seeing a lot of discussion around carbon capture and biofuels. These markets are dependent on supporting government policy and we are hopeful that this clarity will be provided in the next 12 to 24 months. Canada and various provincial governments are also evaluating hydrogen strategies which could present a growth market for Enerflex. Additionally, the Canadian federal government announced a CCUS Investment Tax Credit in their recent budget. The budget proposes a refundable tax credit for businesses that incur eligible CCUS expenses, starting in 2022.

The Service product line got off to a slow start in 2022. The back-end of the current quarter saw a marked uptick in activity within the Service business that is expected to continue through the remainder of the year. Broad-based OEM supply chain challenges along with inflationary pressures have resulted in increased parts costs, late delivery of parts and components, and increases in operating costs.



ENERFLEX STRATEGY

Enerflex's global vision is "*Transforming Energy for a Sustainable Future*". The Company's strategy to support this vision centers on being an operationally focused, diversified, financially strong, dividend-paying company that delivers profitable growth by serving an expanding energy industry in seven gas producing regions worldwide. Enerflex believes that worldwide diversification and growth enhances shareholder value. This strategy has allowed the Company to overcome previous downturns and endure recent uncertainty while still delivering strong operating results. With a positive long-term outlook for natural gas, a cleaner burning fuel that can provide a practical reduction in carbon emissions as the global economy transitions to a growing proportion of renewable sources of energy, Enerflex aims to provide superior returns through the continued implementation of this strategy. The pending combination with Exterran is consistent with our strategy. The Company is working closely with our customers as they strive to reduce greenhouse gas emissions. The Company's core competency of technological excellence in all aspects of modularized energy systems is expected to allow us to partner with customers on the various solutions being explored, which include projects related to carbon capture, flare gas-to-power, electrification of gas processing and compression solutions, renewable natural gas, and hydrogen.

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

In the USA segment, Enerflex has concentrated its efforts on key regions and basins, driven by the U.S.'s increasingly complex natural gas sector. The Company has looked to build on its successes for gas processing solutions for liquids-rich plays in the region and support the development of upstream resources and midstream infrastructure required to feed local demand and an export-focused LNG industry. Our Engineered Systems business designs, engineers, and builds modularized solutions for the natural gas industry across the United States. The focus for the Service business has been on servicing the installed base of over 20 million horsepower across the country with a cost-effective service organization. For the Energy Infrastructure product line, the organic expansion of the contract compression fleet has allowed Enerflex to increase recurring revenues, while the Company's ability to design, engineer, and build contract compression units positions Enerflex well to respond to future growth in the segment. The Company believes that the long-term impact of continued focus on these recurring revenue product lines will be increased predictability and stability in earnings and cash flows, while strategic investment in the contract compression fleet should drive growth and strong returns for the Energy Infrastructure business.

Enerflex has focused its efforts in the ROW segment on growing primarily in the Middle East and Latin America regions, through the sales, and service of its products, and through ownership of energy infrastructure. In these regions, the Company has targeted ITK and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Enerflex underscores the importance of BOOM and other long-term leases in this segment, as multi-year contracts for rental and maintenance of equipment align with the emphasis on growing recurring revenue streams and customers in this segment have proven to be receptive to these solutions. The Company has also seen increased interest in electric power solutions in many of the regions within the ROW segment and looks to leverage expertise developed across the organization to meet this demand. Elsewhere in the segment, Enerflex has expanded the capability of the Company's Australian Service line in response to activity levels, which are projected to remain high on the strength of increasing demand for natural gas, contributing to recurring revenue.

Enerflex has aimed its efforts in Canada on leveraging its capabilities and expertise to expand market share in the natural gas sector, particularly in liquids-rich reservoirs, and to support the development of natural gas resources for a future LNG industry. In addition, the Company has looked to build on its successes in the electric power market given sustained low natural gas prices and the resulting increase in demand for natural gas-fired power generation. Enerflex offers electric power solutions for purchase or for rent, the latter of which allows the Company to offer flexibility and provide maintenance while increasing recurring revenues. Lastly, there has been a focus on signing long-term service and maintenance contracts with customers to secure stability in Service revenues.

Enerflex seeks to continue to diversify its revenue streams from multiple markets, grow its backlog, and ensure profitable margins globally by aggressively managing costs, with a medium-term goal of achieving a 10 percent EBIT margin. In addition, we are focused on expanding the diversification of our product lines, with a goal to increase recurring revenue by 10 percent annually. Enerflex recognizes that the current economic conditions may make it challenging to meet these goals in the near-term but believes these remain appropriate as medium-term and longer-term goals.

NON-IFRS MEASURES

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

<i>(\$ Canadian thousands)</i>	Three months ended March 31,	
	2022	2021
EBITDA		
EBIT	\$ 7,123	\$ 6,584
Depreciation and amortization	21,890	21,072
EBITDA	\$ 29,013	\$ 27,656
Recurring Revenue		
Service	\$ 83,186	\$ 70,536
Energy Infrastructure	65,452	60,437
Total Recurring Revenue	\$ 148,638	\$ 130,973
ROCE		
Trailing 12-month EBIT	\$ 55,636	\$ 74,624
Capital Employed – beginning of period		
Net debt ¹	\$ 158,664	\$ 294,036
Shareholders' equity	1,353,754	1,396,695
	\$ 1,512,418	\$ 1,690,731
Capital Employed – end of period		
Net debt ¹	\$ 205,912	\$ 251,503
Shareholders' equity	1,342,102	1,377,396
	\$ 1,548,014	\$ 1,628,899
Average Capital Employed ²	\$ 1,575,060	\$ 1,717,619
Return on Capital Employed	3.5%	4.3%

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

² Based on a trailing four-quarter average.

FREE CASH FLOW

Free cash flow is a measure of liquidity which demonstrates the Company's ability to generate cash for capital investments, repayment of debt obligations, payment of dividends, and strategic opportunities. Changes in working capital are excluded from this calculation as the Company considers these changes as being temporary in nature.

<i>(\$ Canadian thousands)</i>	Three months ended March 31,	
	2022	2021
Cash provided by (used in) operating activities	\$ 2,625	\$ 59,951
Net change in non-cash working capital and other	(22,919)	34,692
	\$ 25,544	\$ 25,259
Add-back:		
Net finance costs	3,871	4,992
Current income tax expense	3,363	3,109
Proceeds on the disposal of rental equipment	80	528
Deduct:		
Net interest paid	(1,356)	(1,362)
Net cash taxes paid	(370)	(752)
Expenditure related to finance leases	(29,197)	-
Additions to property, plant and equipment	(899)	(1,319)
Additions to rental equipment:		
Growth	(1,035)	(9,836)
Maintenance	(1,505)	(1,493)
Dividends paid	(2,242)	(1,793)
Free cash flow	\$ (3,746)	\$ 17,333

For the three months ended March 31, 2022, free cash flows declined compared to the same period in 2021. This decrease is primarily due to lower cash provided by operating activities before non-cash working capital driven by lower net earnings and expenditures related to finance leases, partially offset by less spending on growth rental equipment.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at March 31, 2022 compared to December 31, 2021:

(\$ Canadian millions)	Increase (Decrease)	Explanation
Current assets	\$25.4	The increase in current assets is primarily due to higher contract assets, inventories, and accounts receivable from increased activity levels. Offsetting these increases, the Company had lower cash and work-in-progress related to finance leases.
Rental equipment	\$(16.3)	Rental equipment decreased due to higher depreciation compared to last year, as well as the unfavourable impact of foreign exchange. These decreases were partially offset by additions during the year, primarily for the contract compression fleet in the USA.
Finance leases receivable	\$29.2	The increase in finance leases receivable is due to the recognition of one of our 10-year natural gas infrastructure projects in the Middle East that is considered a finance lease transaction and began operations during the first quarter of 2022.
Current liabilities	\$40.4	The increase in current liabilities is primarily driven by increases in accounts payable and accrued liabilities, and deferred revenues which is based on the increased level of activity.
Total shareholders' equity	\$(11.7)	Shareholders' equity decreased primarily due to the \$9.5 million impact on unrealized loss on translation of foreign operations and foreign denominated debt; dividends of \$2.2 million and \$0.4 million net loss, offset by \$0.4 million of stock options.

LIQUIDITY

The Company expects that continued cash flows from operations in 2022, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at March 31, 2022, the Company held cash and cash equivalents of \$133.2 million and had cash drawings of \$78.6 million against the Bank and Asset-Based Facilities leaving it with access to \$671.9 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes ("Notes"), with a bank-adjusted net debt to EBITDA ratio, excluding the non-recourse debt, of 1.43:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

(\$ Canadian thousands)	Three months ended	
	2022	March 31, 2021
Cash, beginning of period	\$ 172,758	\$ 95,676
Cash provided by (used in):		
Operating activities	2,625	59,951
Investing activities	(36,954)	(10,679)
Financing activities	(5,242)	(33,745)
Exchange rate changes on foreign currency cash	27	(561)
Cash, end of period	\$ 133,214	\$ 110,642

Operating Activities

For the three months ended March 31, 2022, cash provided by operating activities is significantly lower than the comparative period. The primary driver of this unfavourable variance is due to net change in non-cash working capital and other during the current quarter relative to the improvements that were seen in the first quarter of 2021. Movements in non-cash working capital and other are discussed in the "Financial Position" section of this MD&A. The Company's net loss during the current quarter compared to net earnings in the comparable quarter also contributed to the unfavourable variance.

Investing Activities

For the three months ended March 31, 2022, cash used in investing activities increased due to changes in long-term finance leases receivable, partially offset by lower capital expenditures on the rental fleet and property, plant and equipment.

Financing Activities

For the three months ended March 31, 2022, cash used in financing activities decreased primarily due to draws made on long-term debt compared to the repayments on long-term debt in the same quarter of 2021, and the cash paid on other deferred transaction costs which is related to the new senior secured revolving credit facility related to the Exterran transaction, partially offset by higher dividend payments made in the current quarter compared to the first quarter of 2021.

QUARTERLY SUMMARY

<i>(\$ Canadian thousands, except per share amounts)</i>		Revenue	Net earnings (loss)	Earnings (loss) per share – basic	Earnings (loss) per share – diluted
March 31, 2022	\$	323,069	\$ (369)	\$ (0.00)	\$ (0.00)
December 31, 2021		321,347	(32,707)	(0.36)	(0.36)
September 30, 2021		231,097	6,958	0.08	0.08
June 30, 2021		204,507	4,291	0.05	0.05
March 31, 2021		203,205	3,003	0.03	0.03
December 31, 2020		298,837	32,668	0.36	0.36
September 30, 2020		265,037	10,736	0.12	0.12
June 30, 2020		287,438	7,415	0.08	0.08
March 31, 2020		365,740	37,438	0.42	0.42
December 31, 2019		474,362	31,436	0.35	0.35
September 30, 2019		544,284	63,074	0.71	0.70
June 30, 2019		541,874	40,649	0.45	0.45

CAPITAL RESOURCES

On April 29, 2022, Enerflex had 89,680,965 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. Subsequent to the first quarter of 2022, the Company declared a quarterly dividend of \$0.025 per share. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

At March 31, 2022, the Company had drawn \$78.6 million against the Bank and Asset-Based Facilities (December 31, 2021 – \$67.9 million). The weighted average interest rate on the Bank and Asset-Based Facilities at March 31, 2021 was 2.1 percent and 3.0 percent (December 31, 2021 – 2.1 percent and 3.0 percent).

The composition of the borrowings on the Bank Facility, Asset-Based Facility and the Company's Notes was as follows:

<i>(\$ Canadian thousands)</i>	March 31, 2022	December 31, 2021
Drawings on Bank Facility	\$ 46,246	\$ 30,522
Drawings on Asset-Based Facility	32,363	37,411
Senior Notes due December 15, 2024	146,208	148,119
Senior Notes due December 15, 2027	117,472	118,746
Deferred transaction costs	(3,163)	(3,376)
	\$ 339,126	\$ 331,422

At March 31, 2022, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$224.8 million, and \$117.5 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying interim condensed consolidated financial statements, and has in place appropriate information systems, procedures, and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, the Company's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Company, and has reviewed and approved this MD&A and the interim condensed consolidated financial statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the three months ended March 31, 2022 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR. The Company recognizes that employees may be required to change how control activities are performed during offsite work arrangements resulting from the COVID-19 pandemic and has ensured that control objectives are being met during this period.

SUBSEQUENT EVENTS

Subsequent to March 31, 2022, Enerflex declared a quarterly dividend of \$0.025 per share, payable on July 7, 2022, to shareholders of record on May 19, 2022. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws. All statements other than statements of historical fact are forward-looking statements. The use of any of the words “anticipate”, “plan”, “contemplate”, “continue”, “estimate”, “expect”, “intend”, “propose”, “might”, “may”, “will”, “shall”, “project”, “should”, “could”, “would”, “believe”, “predict”, “forecast”, “pursue”, “potential”, “objective” and “capable” and similar expressions are intended to identify forward-looking information. In particular, this MD&A includes (without limitation) forward-looking information pertaining to: anticipated financial performance; future capital expenditures, including the amount and nature thereof; bookings and backlog; oil and gas prices and the impact of such prices on demand for Enerflex products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain oil and gas markets; business prospects and strategy; expansion and growth of the business and operations, including market share and position in the energy service markets; the ability to raise capital; our plans and intentions in connection with a high yield debt offering and the timing associated therewith; the ability of existing and expected cash flows and other cash resources to fund investments in working capital and capital assets; the impact of economic conditions on accounts receivable; expectations regarding future dividends; and implications of changes in government regulation, laws and income taxes; statements made in the section titled “Outlook” and “Outlook by Segment”; and the anticipated outcomes and when we expect to close our previously announced combination with Exterran Corporation, including the combined entity’s accelerated generation of recurring gross margins to approximately 70 percent of total, approximate doubling of EBITDA, and capital allocation priorities following the completion of in-flight projects in 2022 and 2023.

This forward-looking information is based on assumptions, estimates and analysis made in the light of the Company’s experience and its perception of trends, current conditions and expected developments, as well as other factors that are believed by the Company to be reasonable and relevant in the circumstances. All forward-looking information in this MD&A, primarily in the Outlook and Enerflex Strategy sections, is subject to important risks, uncertainties, and assumptions, which are difficult to predict and which may affect the Company’s operations, including, without limitation: the impact of economic conditions including volatility in the price of oil, gas, and gas liquids; supply chain interruptions leading to delays in receiving materials and parts to produce equipment; interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; business disruptions resulting from the COVID-19 pandemic; the ability to continue to build and improve on proven manufacturing capabilities and innovate into new product lines and markets; increased competition; insufficient funds to support capital investments required to grow the business; the lack of availability of qualified personnel or management; political unrest; and other factors, many of which are beyond the Company’s control. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements, and readers are cautioned not to unduly rely upon forward-looking information.

This MD&A contains information that may constitute future-oriented financial information or financial outlook information (“FOFI”) about Enerflex and the entity resulting from its combination with Exterran, including with respect to the combined entity’s prospective financial performance, financial position or cash flows, all of which is subject to the same assumptions, risk factors, limitations and qualifications as set forth above. Readers are cautioned that the assumptions used in the preparation of such information, although considered reasonable at the time of preparation, may provide to be imprecise or inaccurate and, as such, undue reliance should not be placed on FOFI. Enerflex, Exterran or the combined entity’s actual results, performance and achievements could differ materially from those expressed in, or implied by, FOFI. Enerflex has included FOFI in this MD&A in order to provide readers with a more complete perspective on the combined entity’s future operations and management’s current expectations regarding the combined entity’s future performance. Readers are cautioned that such information may not be appropriate for other purposes.

The forward-looking information and FOFI contained herein is expressly qualified in its entirety by the above cautionary statement. The forward-looking information included in this MD&A is made as of the date of this MD&A and, other than as required by law, the Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

(\$ Canadian thousands)

March 31, 2022 December 31, 2021

	March 31, 2022	December 31, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 133,214	\$ 172,758
Accounts receivable (Note 2)	222,046	212,206
Contract assets (Note 2)	114,178	82,760
Inventories (Note 3)	195,559	172,687
Work-in-progress related to finance leases (Note 3)	32,377	36,169
Current portion of finance leases receivable (Note 6)	20,235	15,248
Income taxes receivable	3,545	3,732
Derivative financial instruments (Note 15)	258	294
Other current assets	13,713	13,853
Total current assets	735,125	709,707
Property, plant and equipment (Note 4)	93,509	96,414
Rental equipment (Note 4)	594,040	610,328
Lease right-of-use assets (Note 5)	47,280	49,887
Finance leases receivable (Note 6)	117,322	88,110
Deferred tax assets (Note 11)	9,261	9,293
Other assets	58,824	51,315
Intangible assets	8,399	10,118
Goodwill (Note 7)	563,215	566,270
Total assets	\$ 2,226,975	\$ 2,191,442
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 256,296	\$ 240,747
Warranty provision	5,608	6,636
Income taxes payable	10,976	9,318
Deferred revenues (Note 8)	109,217	84,614
Current portion of lease liabilities (Note 10)	13,286	13,906
Derivative financial instruments (Note 15)	409	180
Total current liabilities	395,792	355,401
Long-term debt (Note 9)	339,126	331,422
Lease liabilities (Note 10)	41,157	43,108
Deferred tax liabilities (Note 11)	90,796	91,972
Other liabilities	18,002	15,785
Total liabilities	\$ 884,873	\$ 837,688
Shareholders' equity		
Share capital	\$ 375,540	\$ 375,524
Contributed surplus	659,067	658,615
Retained earnings	272,351	274,962
Accumulated other comprehensive income	35,144	44,653
Total shareholders' equity	1,342,102	1,353,754
Total liabilities and shareholders' equity	\$ 2,226,975	\$ 2,191,442

See accompanying Notes to the interim condensed consolidated financial statements, including guarantees, commitments, and contingencies (Note 17).

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

(\$ Canadian thousands, except per share amounts)	Three months ended March 31,	
	2022	2021 ¹
Revenue (Note 12)	\$ 323,069	\$ 203,205
Cost of goods sold	269,426	157,729
Gross margin	53,643	45,476
Selling and administrative expenses	46,804	38,455
Operating income	6,839	7,021
Loss on disposal of property, plant and equipment (Note 4)	-	(25)
Equity earnings (loss) from associate and joint venture	284	(412)
Earnings before finance costs and income taxes	7,123	6,584
Net finance costs (Note 14)	3,871	4,992
Earnings before income taxes	3,252	1,592
Income taxes (Note 11)	3,621	(1,411)
Net earnings (loss)	\$ (369)	\$ 3,003
Earnings (loss) per share – basic	\$ (0.00)	\$ 0.03
Earnings (loss) per share – diluted	\$ (0.00)	\$ 0.03
Weighted average number of shares – basic	89,679,811	89,678,845
Weighted average number of shares – diluted	89,679,811	89,762,110

See accompanying Notes to the interim condensed consolidated financial statements.

¹ Certain March 31, 2021 balances have been reclassified. Refer to Note 1 for additional detail.

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

(\$ Canadian thousands)	Three months ended March 31,	
	2022	2021
Net earnings (loss)	\$ (369)	\$ 3,003
Other comprehensive income (loss):		
Other comprehensive income (loss) that may be reclassified to profit or loss in subsequent periods:		
Change in fair value of derivatives designated as cash flow hedges, net of income tax recovery	(145)	72
Loss on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	(45)	(206)
Unrealized gain on translation of foreign denominated debt	783	675
Unrealized loss on translation of financial statements of foreign operations	(10,102)	(21,489)
Other comprehensive loss	\$ (9,509)	\$ (20,948)
Total comprehensive income (loss)	\$ (9,878)	\$ (17,945)

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(\$ Canadian thousands)	Three months ended March 31,	
	2022	2021
Operating Activities		
Net earnings (loss)	\$ (369)	\$ 3,003
Items not requiring cash and cash equivalents:		
Depreciation and amortization	21,890	21,072
Equity (earnings) loss from associate and joint venture	(284)	412
Deferred income taxes (Note 11)	258	(4,520)
Share-based compensation expense (Note 13)	4,049	5,267
Loss on disposal of property, plant and equipment (Note 4)	-	25
	25,544	25,259
Net change in non-cash working capital and other (Note 16)	(22,919)	34,692
Cash provided by operating activities	\$ 2,625	\$ 59,951
Investing Activities		
Additions to:		
Property, plant and equipment (Note 4)	\$ (899)	\$ (1,319)
Rental equipment (Note 4)	(2,540)	(11,329)
Proceeds on disposal of:		
Rental equipment (Note 4)	80	528
Change in other assets	(33,595)	1,441
Cash used in investing activities	\$ (36,954)	\$ (10,679)
Financing Activities		
Proceeds from (repayment of) long-term debt (Note 9)	\$ 7,399	\$ (27,823)
Lease liability principal repayment (Note 10)	(3,513)	(3,336)
Lease interest (Note 10)	(695)	(793)
Dividends paid	(2,242)	(1,793)
Stock option exercises (Note 13)	12	-
Debt refinancing costs	(6,203)	-
Cash used in financing activities	\$ (5,242)	\$ (33,745)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	\$ 27	\$ (561)
Increase (decrease) in cash and cash equivalents	(39,544)	14,966
Cash and cash equivalents, beginning of period	172,758	95,676
Cash and cash equivalents, end of period	\$ 133,214	\$ 110,642

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

(\$ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total
At January 1, 2021	\$ 375,524	\$ 656,832	\$ 301,040	\$ 63,270	\$ 29	\$ 63,299	\$ 1,396,695
Net earnings	-	-	3,003	-	-	-	3,003
Other comprehensive loss	-	-	-	(20,814)	(134)	(20,948)	(20,948)
Effect of stock option plans	-	440	-	-	-	-	440
Dividends	-	-	(1,794)	-	-	-	(1,794)
At March 31, 2021	\$ 375,524	\$ 657,272	\$ 302,249	\$ 42,456	\$ (105)	\$ 42,351	\$ 1,377,396
At January 1, 2022	\$ 375,524	\$ 658,615	\$ 274,962	\$ 44,544	\$ 109	\$ 44,653	\$ 1,353,754
Net loss	-	-	(369)	-	-	-	(369)
Other comprehensive loss	-	-	-	(9,319)	(190)	(9,509)	(9,509)
Effect of stock option plans	16	452	-	-	-	-	468
Dividends	-	-	(2,242)	-	-	-	(2,242)
At March 31, 2022	\$ 375,540	\$ 659,067	\$ 272,351	\$ 35,225	\$ (81)	\$ 35,144	\$ 1,342,102

See accompanying Notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and were approved and authorized for issue by the Board of Directors on May 4, 2022.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 and 2021 were prepared in accordance with IAS 34 and do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2021. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain comparative figures have been reclassified to conform to the current period’s presentation.

Management has performed a continuing review of the classification of the function of expenditures incurred. Following its review, management has corrected the classification of certain costs related to facilities, insurance, and compensation, resulting in a net reclassification of costs from selling and administrative expenses (“SG&A”) to cost of goods sold (“COGS”). This correction provides more relevant information and reflects costs that are directly attributable to the production of goods or the supply of services. The impact of the net reclassification on COGS and gross margin for the three-month comparative period ending March 31, 2021 is \$4.1 million. The impact of the net reclassification on COGS and gross margin for the year ending December 31, 2021, is \$17.3 million. There is no impact to net earnings or earnings per share. These reclassifications are summarized in the tables below:

Excerpt from unaudited interim condensed consolidated statements of earnings for the three months ended

March 31, 2021 (\$ Canadian thousands)	As previously reported	Reclassification	Revised
Revenue	\$ 203,205	\$ -	\$ 203,205
COGS	153,657	4,072	157,729
Gross margin	49,548	(4,072)	45,476
SG&A	42,527	(4,072)	38,455
Net earnings	3,003	-	3,003

Excerpt from consolidated statements of earnings for the year ended December 31, 2021
(\$ Canadian thousands)

As previously reported	Q1 2021 Reclass	Q2 2021 Reclass	Q3 2021 Reclass	Q4 2021 Reclass	Revised
Revenue	\$ 960,156	-	-	-	\$ 960,156
COGS	740,602	4,072	4,577	4,105	757,934
Gross margin	219,554	(4,072)	(4,577)	(4,105)	202,222
SG&A	165,263	(4,072)	(4,577)	(4,105)	147,931
Net earnings	(18,455)	-	-	-	(18,455)

The unaudited interim condensed consolidated 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 basis 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, 2021.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

	March 31, 2022	December 31, 2021
Trade receivables	\$ 222,686	\$ 213,815
Less: allowance for doubtful accounts	(10,103)	(10,334)
Trade receivables, net	\$ 212,583	\$ 203,481
Other receivables	9,463	8,725
Total accounts receivable	\$ 222,046	\$ 212,206

Aging of trade receivables:

	March 31, 2022	December 31, 2021
Current to 90 days	\$ 178,646	\$ 183,105
Over 90 days	44,040	30,710
	\$ 222,686	\$ 213,815

Movement in allowance for doubtful accounts:

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 10,334	\$ 11,439
Impairment provision additions on receivables	26	275
Amounts settled and derecognized during the period	(112)	(1,317)
Currency translation effects	(145)	(63)
Closing balance	\$ 10,103	\$ 10,334

Movement in contract assets:

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 82,760	\$ 66,722
Unbilled revenue recognized	89,868	244,372
Amounts billed	(57,401)	(228,327)
Currency translation effects	(1,049)	(7)
Closing balance	\$ 114,178	\$ 82,760

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

NOTE 3. INVENTORIES

Inventories consisted of the following:

	March 31, 2022	December 31, 2021
Direct materials	\$ 87,331	\$ 83,943
Repair and distribution parts	58,056	54,156
Work-in-progress	47,056	31,298
Equipment	3,116	3,290
Total inventories	\$ 195,559	\$ 172,687

	March 31, 2022	December 31, 2021
Work-in-progress related to finance leases	\$ 32,377	\$ 36,169

The amount of inventory and overhead costs recognized as an expense and included in cost of goods sold for the three months ended March 31, 2022 was \$269.4 million (March 31, 2021 – \$157.7 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statements of earnings and included in cost of goods sold for March 31, 2022 was \$1.0 million (March 31, 2021 – \$1.6 million).

The costs related to the construction of rental assets determined to be finance leases are accounted for as work-in-progress related to finance leases. Once the project is completed and enters service it will be reclassified to cost of goods sold. During the three months ended March 31, 2022 the Company spent \$29.2 million (March 31, 2021 – nil) related to finance leases.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three months ended March 31, 2022, the Company added \$0.9 million in property, plant and equipment (March 31, 2021 – \$1.3 million) and \$2.5 million in rental equipment (March 31, 2021 – \$11.3 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the three months ended March 31, 2022 was a decrease of \$1.1 million on property, plant and equipment and a decrease of \$5.1 million on rental equipment (March 31, 2021 – decrease of \$1.2 million and \$9.7 million, respectively).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2022 was \$16.3 million (March 31, 2021 – \$15.7 million), of which \$15.9 million was included in cost of goods sold (March 31, 2021 – \$15.2 million) and \$0.4 million was included in selling and administrative expenses (March 31, 2021 – \$0.5 million).

During the first quarter of 2022, the Company reclassified certain prior period amounts between cost of goods sold and selling and administrative expenses, refer to Note 1 for more details. As a result, \$0.4 million of property, plant and equipment depreciation was reclassified from selling and administrative expenses to cost of goods sold.

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three months ended March 31, 2022, the Company added \$1.6 million in lease right-of-use assets (March 31, 2021 – \$0.7 million) and disposed of lease right-of-use assets with a net book value of \$0.4 million (March 31, 2021 – nil). The impact of foreign exchange movements on lease right-of-use assets denominated in a foreign currency during the three months ended March 31, 2022 was a decrease of \$0.2 million (March 31, 2021 – decrease of \$0.3 million).

Depreciation of lease right-of-use assets included in earnings for the three months ended March 31, 2022 was \$3.6 million (March 31, 2021 – \$3.4 million), of which \$3.0 million was included in cost of goods sold (March 31, 2021 – \$2.5 million) and \$0.6 million was included in selling and administrative expenses (March 31, 2021 – \$0.9 million).

During the first quarter of 2022, the Company reclassified certain prior period amounts between cost of goods sold and selling and administrative expenses, refer to Note 1 for more details. As a result, \$0.8 million of lease right-of-use asset depreciation was reclassified from selling and administrative expenses to cost of goods sold.

NOTE 6. FINANCE LEASES RECEIVABLE

The Company has entered into finance lease arrangements for certain of its rental assets. The initial terms of the leases entered into range from three to ten years.

The value of the finance lease receivable is comprised of the following:

	Minimum lease payments and unguaranteed residual value		Present value of minimum lease payments and unguaranteed residual value	
	March 31, 2022	December 31, 2021	March 31, 2022	December 31, 2021
Less than one year	\$ 21,981	\$ 16,420	\$ 20,235	\$ 15,248
Between one and five years	94,323	64,739	70,944	49,546
Later than five years	82,490	62,827	46,378	38,564
	\$ 198,794	\$ 143,986	\$ 137,557	\$ 103,358
Less: Unearned finance income	(61,237)	(40,628)	-	-
	\$ 137,557	\$ 103,358	\$ 137,557	\$ 103,358

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 103,358	\$ 64,274
Additions	38,947	40,154
Interest income	2,895	5,417
Billings and payments	(5,826)	(6,597)
Currency translation effects	(1,817)	110
	\$ 137,557	\$ 103,358

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At March 31, 2022 the average interest rate was 7.8 percent per annum (December 31, 2021 – 8.0 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 7. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 566,270	\$ 576,028
Currency translation effects	(3,055)	(9,758)
	\$ 563,215	\$ 566,270

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at December 31, 2021, the result of which was no impairment of goodwill. At March 31, 2022, the Company determined that there were no indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

NOTE 8. DEFERRED REVENUES

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 84,614	\$ 35,409
Cash received in advance of revenue recognition	80,302	167,956
Revenue subsequently recognized	(54,430)	(118,438)
Currency translation effects	(1,269)	(313)
Closing balance	\$ 109,217	\$ 84,614

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

NOTE 9. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility (“Bank Facility”) has a maturity date of June 30, 2025 (the “Maturity Date”) for \$660.0 million of \$725.0 million in commitments. The maturity date for the remaining \$65.0 million is June 30, 2023. In addition, the Bank Facility may be increased by \$150.0 million at the request of the Company, subject to the lenders’ consent. The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

A subsidiary of the Company has access to a credit facility, secured by certain assets of the subsidiary, of up to \$52.5 million U.S. dollars (the “Asset-Based Facility”). This credit facility is non-recourse to the Company. Under the terms of the Asset-Based Facility, the Company is required to maintain certain covenants. As at March 31, 2022, the Company was in compliance with all covenants. Pursuant to the terms and conditions of the Asset-Based Facility, a margin is applied to drawings on the Asset-Based Facility in addition to the quoted interest rate. The margin is established as a percentage and is based on a consolidated total funded debt to earnings before finance costs, income taxes, depreciation and amortization (“EBITDA”) ratio.

The composition of the borrowings on the Bank Facility, Asset-Based Facility, and the Company’s senior unsecured notes (“Notes”) was as follows:

	March 31, 2022	December 31, 2021
Drawings on Bank Facility	\$ 46,246	\$ 30,522
Drawings on Asset-Based Facility	32,363	37,411
Notes due December 15, 2024	146,208	148,119
Notes due December 15, 2027	117,472	118,746
Deferred transaction costs	(3,163)	(3,376)
	\$ 339,126	\$ 331,422

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2022 was 2.1 percent (December 31, 2021 – 2.1 percent). The weighted average interest rate on the Asset-Based Facility for the three months ended March 31, 2022 was 3.0 percent (December 31, 2021 – 3.0 percent). At March 31, 2022 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are \$224.8 million, and \$117.5 million thereafter.

NOTE 10. LEASE LIABILITIES

	March 31, 2022	December 31, 2021
Balance, January 1	\$ 57,014	\$ 61,926
Additions	1,199	9,721
Lease interest	695	3,029
Payments made against lease liabilities	(4,208)	(17,244)
Currency translation effects and other	(257)	(418)
Closing balance	\$ 54,443	\$ 57,014
Current portion of lease liabilities	\$ 13,286	\$ 13,906
Non-current portion of lease liabilities	41,157	43,108
	\$ 54,443	\$ 57,014

In addition to the lease payments made above, during the three months ended March 31, 2022, the Company paid less than \$0.1 million (March 31, 2021 - \$0.1 million) relating to short-term and low-value leases which were expensed as incurred. During the three months ended March 31, 2022, the Company also paid \$0.3 million (March 31, 2021 - \$0.5 million) in variable lease payments not included in the measurement of lease liabilities, of which \$0.3 million (March 31, 2021 - \$0.2 million) was included in cost of goods sold and less than \$0.1 million (March 31, 2021 - \$0.3 million) was included in selling and administrative expenses. Interest expense on lease liabilities was \$0.7 million for the three months ended March 31, 2022 (March 31, 2021 - \$0.8 million). Total cash outflow for leases for the three months ended March 31, 2022 was \$4.7 million (March 31, 2021 - \$4.6 million).

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

	March 31, 2022
2022	\$ 11,487
2023	11,566
2024	8,436
2025	6,380
2026	4,608
Thereafter	22,819
	\$ 65,296
Less:	
Imputed interest	10,684
Short-term leases	160
Low-value leases	9
	\$ 54,443

NOTE 11. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Three months ended March 31,	2022	2021
Current income taxes	\$ 3,363	\$ 3,109
Deferred income taxes	258	(4,520)
	\$ 3,621	\$ (1,411)

(b) Reconciliation of Tax Expense

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

Three months ended March 31,	2022	2021
Earnings before income taxes	\$ 3,252	\$ 1,592
Canadian statutory rate	23.8%	23.6%
Expected income tax provision	\$ 775	\$ 376
Add (deduct):		
Exchange rate effects on tax basis	(1,672)	(1,485)
Earnings taxed in foreign jurisdictions	405	(604)
Amounts not deductible for tax purposes	164	147
Impact of accounting for associates and joint ventures	(68)	97
Change in recognized deferred tax asset ¹	3,924	-
Other	93	58
Income taxes from continuing operations	\$ 3,621	\$ (1,411)

¹ This balance is the result of the Company no longer recognizing deferred tax recoveries in Canada, as it is unlikely that sufficient future taxable income will be available to offset against the existing deductible temporary differences and any unused Canadian tax losses or credits.

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2021 – 15.0 percent) and provincial income tax rates of 8.8 percent (2021 – 8.6 percent).

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

NOTE 12. REVENUE

Three months ended March 31,	2022		2021	
Engineered Systems	\$	174,431	\$	72,232
Service		83,186		70,536
Energy Infrastructure ¹		65,452		60,437
Total revenue	\$	323,069	\$	203,205

¹ During the three months ended March 31, 2022, the Company recognized \$13.6 million of revenue related to operating leases in its Canada and ROW segments (March 31, 2021 - \$17.8 million). Additionally, the Company recognized \$27.6 million of revenue related to its USA contract compression fleet (March 31, 2021 - \$22.6 million).

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

Three months ended March 31,	2022		2021	
United States	\$	127,714	\$	81,387
Canada		65,044		49,248
Oman		50,618		17,384
Australia		13,068		17,048
Argentina		11,417		6,400
Nigeria		9,437		1,271
Bahrain		8,163		7,088
Colombia		7,664		5,029
Mexico		6,962		6,294
Brazil		6,476		3,487
Other		16,506		8,569
Total revenue	\$	323,069	\$	203,205

The following table outlines the Company's unsatisfied performance obligations, by product line, as at March 31, 2022:

	Less than one year		One to two years		Greater than two years		Total
Engineered Systems	\$	619,294	\$	694	\$	-	\$ 619,988
Service		35,645		14,435		42,059	92,139
Energy Infrastructure		174,387		136,231		677,255	987,873
	\$	829,326	\$	151,360	\$	719,314	\$ 1,700,000

NOTE 13. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Three months ended March 31,	2022		2021	
Equity settled share-based payments	\$	457	\$	440
Cash settled share-based payments		3,592		4,827
Share-based compensation expense	\$	4,049	\$	5,267

Deferred share units (“DSUs”), phantom share entitlements (“PSEs”), performance share units (“PSUs”), restricted share units (“RSUs”), and cash performance target plan awards (“CPTs”) are all classified as cash settled share-based payments. Stock options are equity settled share-based payments.

The Company did not grant any CPTs, PSEs, PSUs, RSUs, or options to officers and key employees during the first three months of 2022. The DSU, PSU, and RSU holders had dividends credited to their accounts during the period. The carrying value of the liability relating to cash settled share-based payments at March 31, 2022 included in current liabilities was \$6.0 million (December 31, 2021 - \$4.3 million) and in other long-term liabilities was \$15.3 million (December 31, 2021 - \$13.4 million).

(b) Equity-Settled Share-Based Payments

	March 31, 2022			December 31, 2021		
	Number of options	Weighted average exercise price		Number of options	Weighted average exercise price	
Options outstanding, beginning of period	4,456,444	\$ 11.66		4,057,142	\$ 12.78	
Granted	-	-		654,847	7.85	
Exercised ¹	(2,120)	5.51		-	-	
Forfeited	(27,286)	13.51		(24,267)	9.25	
Expired	-	-		(231,278)	20.75	
Options outstanding, end of period	4,427,038	\$ 11.65		4,456,444	\$ 11.66	
Options exercisable, end of period	2,415,824	\$ 13.63		2,445,230	\$ 13.62	

¹The weighted average share price of Options at the date of exercise for the three months ended March 31, 2022 was \$7.89 (March 31, 2021 - nil).

The following table summarizes options outstanding and exercisable at March 31, 2022:

Range of exercise prices	Options Outstanding			Options Exercisable		
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price
\$5.51 - \$9.77	1,475,830	5.81	\$ 6.54	165,775	5.37	\$ 5.51
\$9.78 - \$14.75	1,657,799	2.37	12.85	1,174,530	1.55	12.65
\$14.76 - \$16.12	1,293,409	1.61	15.95	1,075,519	1.30	15.94
Total	4,427,038	3.30	\$ 11.65	2,415,824	1.70	\$ 13.63

(c) Cash-Settled Share-Based Payments

During the three months ended March 31, 2022, the value of director's compensation and executive bonuses elected to be received in DSUs totalled \$0.6 million (March 31, 2021 - \$0.7 million).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2022	1,406,170	\$ 10.51
Granted	76,751	8.14
In lieu of dividends	4,269	7.81
DSUs outstanding, March 31, 2022	1,487,190	\$ 10.38

NOTE 14. FINANCE COSTS AND INCOME

Three months ended March 31,	2022	2021
Finance Costs		
Short and long-term borrowings	\$ 3,820	\$ 4,394
Interest on lease liability	695	793
Total finance costs	\$ 4,515	\$ 5,187
Finance Income		
Interest income	\$ 644	\$ 195
Net finance costs	\$ 3,871	\$ 4,992

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2022 were designated in the same manner as they were at December 31, 2021. Accordingly, with the exception of the Notes and certain long-term receivables, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at March 31, 2022 was \$263.7 million and \$252.1 million, respectively (December 31, 2021 - \$266.9 million and \$280.3 million, respectively). The fair value of these Notes at March 31, 2022 was determined on a discounted cash flow basis with a weighted average discount rate of 5.1 percent (December 31, 2021 - 3.5 percent).

The Company holds preferred shares that were initially recorded at fair value and subsequently measured at amortized cost and recognized as long-term receivables in Other assets. The carrying value and estimated fair value of the preferred shares at March 31, 2022 was \$24.7 million and \$26.5 million, respectively (December 31, 2021 - \$24.2 million and \$27.5 million, respectively).

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at March 31, 2022:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	16,258	April 2022 – February 2023
Sales contracts	USD	(8,622)	April 2022 – September 2022
Purchase contracts	EUR	1,279	May 2022 – October 2022
Sales contracts	EUR	(641)	June 2022

At March 31, 2022, the fair value of derivative financial instruments classified as financial assets was \$0.3 million, and as financial liabilities was \$0.4 million (December 31, 2021 – \$0.3 million and \$0.2 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and the Brazilian real. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of \$43.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2022. The following table shows the sensitivity to a 5.0 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5 percent	USD		AUD		BRL
Earnings from foreign operations					
Earnings before income taxes	\$	706	\$	(82)	\$ 67
Financial instruments held in foreign operations					
Other comprehensive income	\$	14,122	\$	582	\$ 349
Financial instruments held in Canadian operations					
Earnings before income taxes	\$	(9,293)	\$	-	\$ -

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

Interest Rate Risk

The Company's liabilities include long-term debt that is subject to fluctuations in interest rates. The Company's Notes outstanding at March 31, 2022 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank and Asset-Based Facilities, however, are subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank and Asset-Based Facilities, the change in annual interest expense would be \$0.8 million. All interest charges are recorded on the annual consolidated statements 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 Bank and Asset-Based Facilities for future drawings to meet the Company's future growth targets. As at March 31, 2022, the Company held cash and cash equivalents of \$133.2 million and had drawn \$78.6 million against the Bank and Asset-Based Facilities, leaving it with access to \$671.9 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank and Asset-Based Facilities, and Notes, with a bank-adjusted net debt to EBITDA ratio of 1.43:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1

compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at March 31, 2022:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	\$ 264	\$ 145	\$ -	\$ 409
Accounts payable and accrued liabilities	256,296	-	-	256,296
Long-term debt – Bank Facility	-	-	46,246	46,246
Long-term debt – Asset-Based Facility	-	-	32,363	32,363
Long-term debt – Notes	-	-	263,680	263,680
Other long-term liabilities	-	-	18,002	18,002

The Company expects that cash flows from operations in 2022, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 16. SUPPLEMENTAL CASH FLOW INFORMATION

Three months ended March 31,	2022	2021
Net change in non-cash working capital and other		
Accounts receivable	\$ (9,840)	\$ 25,622
Contract assets	(31,418)	16,256
Inventories	(22,872)	7,222
Work-in-progress related to finance leases	3,792	-
Accounts payable and accrued liabilities, provisions, and income taxes payable	16,179	(11,786)
Deferred revenue	24,603	(5,610)
Foreign currency and other	(3,363)	2,988
	\$ (22,919)	\$ 34,692

Cash interest and taxes paid and received during the period:

Three months ended March 31,	2022	2021
Interest paid – short- and long-term borrowings	\$ 1,017	\$ 627
Interest paid – lease liabilities	695	793
Total interest paid	\$ 1,712	\$ 1,420
Interest received	356	58
Taxes paid	997	900
Taxes received	627	148

Changes in liabilities arising from financing activities during the period:

Three months ended March 31,	2022	2021
Long-term debt, opening balance	\$ 331,422	\$ 389,712
Changes from financing cash flows	11,283	(24,759)
The effect of changes in foreign exchange rates	(3,793)	(2,909)
Amortization of deferred transaction costs	305	256
Other changes	(91)	(155)
Long-term debt, closing balance	\$ 339,126	\$ 362,145

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At March 31, 2022, the Company had outstanding letters of credit of \$40.1 million (December 31, 2021 - \$42.1 million).

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

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

2022	\$ 312,790
2023	4,144
2024	126

NOTE 18. SEASONALITY

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

NOTE 19. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the three months ended March 31, 2022, the Company recognized \$46.0 million of revenue from one customer in the ROW segment, which represented 14.2 percent of the total revenue for the period. At March 31, 2022 the accounts receivable balance from this customer was \$17.7 million, which represents 8.0 percent of the total accounts receivables. For the three months ended March 31, 2021, the Company had no individual customers which accounted for more than 10 percent of its revenue.

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

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

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

Three months ended March 31,	USA		Rest of World		Canada		Total	
	2022	2021	2022	2021	2022	2021	2022	2021
Segment revenue	\$ 182,755	\$ 84,965	\$ 109,394	\$ 70,517	\$ 67,124	\$ 51,629	\$ 359,273	\$ 207,111
Intersegment revenue	(35,291)	(3,019)	(78)	(6)	(835)	(881)	(36,204)	(3,906)
Revenue	\$ 147,464	\$ 81,946	\$ 109,316	\$ 70,511	\$ 66,289	\$ 50,748	\$ 323,069	\$ 203,205
Revenue – Engineered Systems	77,632	29,240	49,292	8,442	47,507	34,550	174,431	72,232
Revenue – Service	42,249	30,114	23,034	25,911	17,903	14,511	83,186	70,536
Revenue – Energy Infrastructure	27,583	22,592	36,990	36,158	879	1,687	65,452	60,437
Operating income (loss) ¹	\$ 345	\$ 366	\$ 10,282	\$ 4,728	\$ (3,788)	\$ 1,927	\$ 6,839	\$ 7,021

¹ The company did not receive any government grants during the three months ended March 31, 2022 (March 31, 2021 - \$4.1 million). Government grants are recorded in cost of goods sold and selling and administrative expenses within the interim condensed consolidated statements of earnings in accordance with where the associated expenses were recognized.

	USA		Rest of World		Canada		Total	
	Mar. 31 2022	Dec. 31 2021						
Segment assets	\$ 985,255	\$ 1,000,755	\$ 691,812	\$ 654,969	\$ 551,610	\$ 546,250	\$ 2,228,677	\$ 2,201,974
Goodwill	152,220	154,437	322,628	323,466	88,367	88,367	563,215	566,270
Corporate	-	-	-	-	-	-	(564,917)	(576,802)
Total segment assets	\$ 1,137,475	\$ 1,155,192	\$ 1,014,440	\$ 978,435	\$ 639,977	\$ 634,617	\$ 2,226,975	\$ 2,191,442

NOTE 20. PENDING EXTERRAN TRANSACTION

On January 24, 2022, Enerflex and Exterran Corporation (NYSE: EXTN) announced they have entered into a definitive agreement to combine the companies in an all-share transaction to create a premier integrated global provider of energy infrastructure. Upon completion of the transaction, which will require shareholder and regulatory approval, the combined entity will operate as Enerflex Ltd. Subject to all approvals, Enerflex anticipates closing the Transaction during the second half of 2022.

During the quarter, Enerflex also completed the syndication of a new senior secured revolving credit facility for a 3-year term. Enerflex elected to upsize the credit facility from \$600 million USD to \$700 million USD to provide enhanced liquidity and is in addition to the fully committed \$925 million 5-year bridge loan facility. Additionally, S&P Global Ratings (“S&P”) and Fitch Ratings Ltd. (“Fitch”) have each provided an initial credit rating for the pro forma combination of Enerflex and Exterran. S&P’s initial corporate credit rating is BB- with a stable outlook and Fitch’s initial long-term issuer rating is BB- with a stable outlook. The ratings will be used to support our previously announced high yield debt offering that we intend to pursue.

NOTE 21. SUBSEQUENT EVENTS

Subsequent to March 31, 2022, Enerflex declared a quarterly dividend of \$0.025 per share, payable on July 7, 2022, to shareholders of record on May 19, 2022. Enerflex’s Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

BOARD OF DIRECTORS

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H. STANLEY MARSHALL^{2, 3}
Director
Paradise, NL

KEVIN J. REINHART⁷
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Calgary, AB

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Director
President and Chief
Executive Officer
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JUAN CARLOS VILLEGAS^{2, 4}
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Lo Barnechea, RM, Chile

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EXECUTIVES

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Senior Vice President,
Chief Financial Officer
Calgary, AB

DAVID IZETT
Senior Vice President,
General Counsel
Calgary, AB

PATRICIA MARTINEZ
Chief Energy Transition Officer
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PHIL PYLE
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GREG STEWART
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HELMUTH WITULSKI
President, Canada
Calgary, AB

1. Chair of the Nominating and Corporate Governance Committee

2. Member of the Nominating and Corporate Governance Committee

3. Chair of the Human Resources and Compensation Committee

4. Member of the Human Resources and Compensation Committee

5. Chair of the Audit Committee

6. Member of the Audit Committee

7. Chair of the Board

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

TSX Trust Company
Calgary, AB, Canada and Toronto, ON, Canada

For shareholder inquiries:

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

The Toronto Dominion Bank | Calgary, AB, Canada

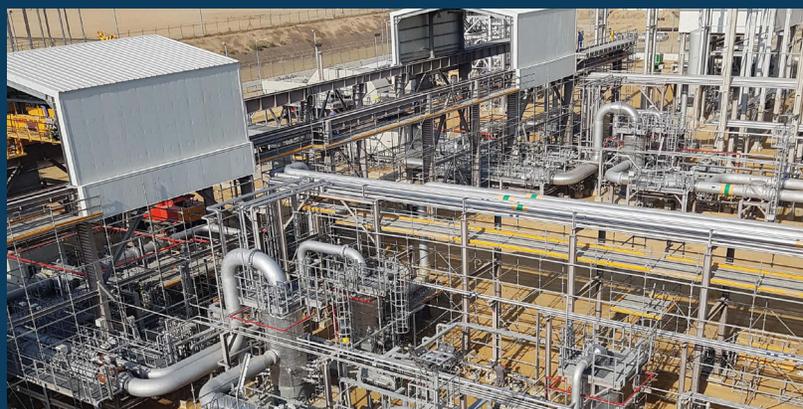
The Bank of Nova Scotia | Toronto, ON, Canada

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



ENERFLEX

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