ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 7, 2020

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the unaudited interim condensed consolidated financial statements for three months ended March 31, 2020 and 2019, the Company's 2019 Annual Report, the Annual Information Form for the year ended December 31, 2019, 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 unaudited 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 March 31,	
($ Canadian thousands, except percentages and horsepower)	**2020**	2019
Revenue	**$ 365,740**	$ 484,902
Gross margin	**93,732**	88,770
Selling and administrative expenses	**43,512**	55,823
Operating income	**50,220**	32,947
Earnings before finance costs and income taxes ("EBIT")	**50,012**	33,346
Net earnings	**$ 37,438**	$ 16,969
Key Financial Performance Indicators [1]		
Engineered Systems bookings	**$ 155,394**	$ 118,391
Engineered Systems backlog	**397,758**	1,193,550
Recurring revenue growth [2]	**0.7%**	20.5%
Gross margin as a percentage of revenue	**25.6%**	18.3%
EBIT as a percentage of revenue [3]	**13.0%**	9.2%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 70,751**	$ 55,277
Return on capital employed ("ROCE") [3]	**15.4%**	12.2%
Rental horsepower	**686,554**	667,236

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

[2] Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. While the contracts are subject to cancellation or have varying lengths, the Company does not believe these characteristics preclude them from being considered recurring in nature. Growth in recurring revenue is calculated on a period-over-period basis.

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

FIRST QUARTER 2020 OVERVIEW

For the three months ended March 31, 2020:

- Operating income for the first quarter of 2020 improved over the prior year, driven by higher gross margins and lower SG&A costs. Gross margin improved based on the contribution of large, high margin projects from opening backlog that were booked during the second half of 2018 and the continued contributions from asset ownership. The prior year included higher estimated costs to complete certain projects and write-down of equipment. Gross margin percentage for the quarter was 25.6 percent, compared to 18.3 percent in 2019, largely driven by continued execution on a small number of large, high margin Engineered Systems projects. As these projects are completed in 2020, gross margins from Engineered Systems will decrease, and margin contribution from recurring revenues will make up a larger proportion of total gross margin.
- SG&A costs of $43.5 million in the first quarter of 2020 were down from $55.8 million in the same period last year. The decrease in SG&A is driven by lower compensation expense on mark-to-market impacts on share-based compensation, partially offset by unfavourable foreign exchange movement. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic, and remains focused on controlling costs where possible.
- Engineered Systems booking activity was higher in the quarter versus the prior year period driven by activity in the USA and Rest of World (“ROW”) segments, however bookings continue to be tempered by restrained spending within the oil and gas industry due to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic. The movement in exchange rates resulted in an increase of $25.6 million on foreign currency denominated backlog during the first quarter of 2020, compared to a $21.4 million decrease in the comparable period – a $47.0 million period-over-period increase. While the first quarter of 2020 improved over the prior year, reduced capital spending within the sector continues to negatively impact bookings activity for Enerflex’s Engineered Systems business. The Company has enacted measures to align costs with revenue levels expected from the Engineered Systems business, including reducing its variable workforce, implementing reduced work schedules and unpaid days off in certain geographies, and restricting all non-operations-related travel. Additional measures may be implemented in response to market conditions.
- Engineered Systems backlog decreased compared to the balance at December 31, 2019 due to Engineered Systems revenue recognized in the period outpacing bookings, partially offset by favourable foreign exchange impacts.
- The Company continues to manage working capital and has slowed supply chain transactions to align with anticipated market activity. Inventory levels increased during the quarter due to purchases of major equipment with long lead times, which were ordered in prior periods and delivered in the current period. The Company expects to realize this major equipment inventory into Engineered Systems projects and new contract compression units, however the timing and extent to which inventory can be utilized is dependent on demand. In addition, the collectability of accounts receivable becomes increasingly pertinent in periods of slower activity. The Company’s large geographic footprint and diversification of products and services assists in mitigating counterparty credit risk that can result from customer concentration. Enerflex remains vigilant in assessing outstanding receivables, however the Company has not experienced increased levels of defaults or customer distress as a result of recent events and expects to further draw down the accounts receivable balance as the year progresses.
- The Company exited the quarter with a net debt to EBITDA ratio of 1.2:1, largely due to a $68.5 million increase in net debt compared to December 31, 2019. The increase in net debt is attributable to: (i) foreign exchange fluctuations during the quarter between the US and Canadian dollar; and (ii) expenditures on inventory and capex commitments, which are front-loaded for the year and will see a significant slowdown in the second half of 2020. The Company has access to $529.8 million of credit for future drawings, and with a net debt to EBITDA ratio of 1.2:1 against the covenant requirement of 3:1, the Company has significant liquidity capacity.
- For the three months ended March 31, 2020, the Company invested $62.7 million in rental assets to fund both the organic expansion of the USA contract compression fleet and four previously announced build-own-operate-maintain (“BOOM”) projects. During the quarter, 18,000 horsepower of contract compression assets was installed and began generating revenue. At March 31, 2020, the USA contract compression fleet totaled approximately 325,000 horsepower with an 87 percent utilization rate. In addition, we continue to progress four previously announced BOOM projects. However, COVID-19-related travel restrictions and limitations on worksite access may delay three of these BOOM projects that were previously expected to commence operations by mid-2020.
- Subsequent to March 31, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 2, 2020, to shareholders of record on May 14, 2020. This new dividend amount represents a decrease of 82.6 percent, and was previously communicated in a press release dated March 17, 2020. The decrease in dividend is consistent with Enerflex’s long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. 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.

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 four categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) restructuring activities; 3) transaction costs related to M&A activity; and, 4) 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, 2020
($ Canadian thousands)		**Total**		**USA**		**ROW**		**Canada**
Reported EBIT	**$**	**50,012**	**$**	**37,384**	**$**	**10,256**	**$**	**2,372**
Severance costs in COGS and SG&A		**1,034**		**287**		**33**		**714**
Share-based compensation		**(5,089)**		**(2,693)**		**(1,563)**		**(833)**
Depreciation and amortization		**20,739**		**9,914**		**8,552**		**2,273**
Adjusted EBITDA	**$**	**66,696**	**$**	**44,892**	**$**	**17,278**	**$**	**4,526**

								Three months ended March 31, 2019
($ Canadian thousands)		Total		USA		ROW		Canada
Reported EBIT	$	33,346	$	25,822	$	1,982	$	5,542
Write-off of facility and equipment in COGS		2,040		-		2,040		-
Share-based compensation		9,383		5,149		2,298		1,936
Depreciation and amortization		21,931		7,641		11,685		2,605
Adjusted EBITDA	$	66,700	$	38,612	$	18,005	$	10,083

Adjusted EBITDA for the three months ended March 31, 2020 is consistent with the same period from the prior year. 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 that they are received. Revenue recognized on Engineered Systems products decreases backlog in the period that the revenue is recognized. As a result, backlog is an indication of revenue to be recognized in future periods using percentage-of-completion accounting.

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

($ Canadian thousands)		Three months ended March 31, 2020		2019
Bookings				
USA	**$**	**96,107**	$	75,145
Rest of World		**34,493**		1,568
Canada		**24,794**		41,678
Total bookings	**$**	**155,394**	$	118,391

($ Canadian thousands)		March 31, 2020		December 31, 2019
Backlog				
USA	**$**	**250,545**	$	320,054
Rest of World		**36,778**		8,941
Canada		**110,435**		138,762
Total backlog	**$**	**397,758**	$	467,757

Engineered Systems bookings in the first quarter of 2020 were higher than the comparative period, however bookings activity continues to be tempered by several factors, including a severe downturn in oil prices caused by shifting supply and demand dynamics, as well as market uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty, and in some cases may serve to accentuate these issues. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Backlog at March 31, 2020 was lower than at December 31, 2019 due to Engineered Systems revenue recognized outpacing bookings, partially offset by favourable foreign exchange impacts on foreign currency denominated backlog. The movement in exchange rates resulted in an increase of $25.6 million during the first quarter of 2020 on foreign currency denominated backlog, compared to a decrease of $21.4 million in the same period of 2019.

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 and processing 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, operations 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 BOOM and 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 March 31, 2020	2019
Engineered Systems bookings	$ **96,107**	$ 75,145
Engineered Systems backlog	**250,545**	765,746
Segment revenue	$ **229,181**	$ 304,891
Intersegment revenue	**(2,072)**	(12,374)
Revenue	$ **227,109**	$ 292,517
Revenue – Engineered Systems	$ **165,616**	$ 239,994
Revenue – Service	$ **38,261**	$ 35,843
Revenue – Rentals	$ **23,232**	$ 16,680
Operating income	$ **37,384**	$ 25,841
EBIT	$ **37,384**	$ 25,822
EBITDA	$ **47,298**	$ 33,463
Segment revenue as a % of total revenue	**62.1%**	60.3%
Recurring revenue growth	**17.1%**	29.1%
Operating income as a % of segment revenue	**16.5%**	8.8%
EBIT as a % of segment revenue	**16.5%**	8.8%
EBITDA as a % of segment revenue	**20.8%**	11.4%

Engineered Systems bookings of $96.1 million in the first quarter of 2020 represents an increase of $21.0 million or 27.9 percent compared to the same period in the prior year. However, bookings activity continues to be lower than historical levels, and has been tempered by several factors, including a severe downturn in oil prices caused by shifting supply and demand dynamics, as well as market uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $65.4 million in the first quarter of 2020 compared to the same period of 2019 due to lower Engineered Systems revenue, partially offset by higher Service and Rentals revenues. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings throughout 2019, while Service revenue increased due to higher activity levels and Rentals revenue increased due to the organic growth of the contract compression fleet, which grew by 32.3 percent on a horsepower basis in the last year.

Operating income was higher in the first quarter of 2020 compared to the prior year by $11.5 million, due to improved gross margin performance on strong project execution on large, high margin projects from opening backlog and lower SG&A costs driven by mark-to-market impacts on share-based compensation.

At March 31, 2020, the USA contract compression fleet totaled approximately 325,000 horsepower with an 87 percent utilization rate, compared to approximately 310,000 horsepower with an 87 percent utilization rate at December 31, 2019.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2020		2019
Engineered Systems Bookings	**$**	**34,493**	$	1,568
Engineered Systems Backlog		**36,778**		50,198
Segment revenue	**$**	**70,275**	$	101,265
Intersegment revenue		**-**		(7,462)
Revenue	**$**	**70,275**	$	93,803
Revenue – Engineered Systems	**$**	**6,656**	$	26,580
Revenue – Service	**$**	**35,597**	$	38,724
Revenue – Rentals	**$**	**28,022**	$	28,499
Operating income	**$**	**10,213**	$	1,958
EBIT	**$**	**10,256**	$	1,982
EBITDA	**$**	**18,808**	$	13,667
Segment revenue as a % of total revenue		**19.2%**		19.4%
Recurring revenue growth		**(5.4)%**		11.6%
Operating income as a % of segment revenue		**14.5%**		2.1%
EBIT as a % of segment revenue		**14.6%**		2.1%
EBITDA as a % of segment revenue		**26.8%**		14.6%

Engineered Systems bookings in the Rest of World segment are typically larger in nature and scope and as a result are less frequent.

Rest of World revenue decreased by $23.5 million in the first quarter of 2020 compared to the same period in the prior year due to lower Engineered Systems and Service revenues. Engineered Systems revenue was down for the first quarter of 2020 primarily due to a lower opening backlog, while Service revenues decreased due to one-off equipment sales in Asia in the prior year that did not recur in 2020. Rentals revenues were consistent with the comparative period.

Operating income increased by $8.3 million in the first quarter of 2020 compared to the same period of 2019. The current quarter increase is driven by lower SG&A costs, as well as non-recurrence of the negative impacts of higher estimated costs to complete certain projects and write-down of equipment included in the comparative period. SG&A for the first quarter of 2020 decreased compared to 2019 due to mark-to-market impacts on share-based compensation, partially offset by unfavourable foreign exchange movements.

CANADA SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2020		2019
Engineered Systems bookings	**$**	**24,794**	$	41,678
Engineered Systems backlog		**110,435**		377,606
Segment revenue	**$**	**69,353**	$	108,398
Intersegment revenue		**(997)**		(9,816)
Revenue	**$**	**68,356**	$	98,582
Revenue – Engineered Systems	**$**	**53,121**	$	78,888
Revenue – Service	**$**	**12,835**	$	16,949
Revenue – Rentals	**$**	**2,400**	$	2,745
Operating income	**$**	**2,623**	$	5,148
EBIT	**$**	**2,372**	$	5,542
EBITDA	**$**	**4,645**	$	8,147
Segment revenue as a % of total revenue		**18.7%**		20.3%
Recurring revenue growth		**(22.6)%**		32.8%
Operating income as a % of segment revenue		**3.8%**		5.2%
EBIT as a % of segment revenue		**3.5%**		5.6%
EBITDA as a % of segment revenue		**6.8%**		8.3%

Bookings have decreased to $24.8 million from $41.7 million a year ago, predominantly due several factors, including a severe downturn in oil prices caused by shifting supply and demand dynamics, as well as market uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $30.2 million for the first quarter of 2020 compared to the same period in 2019, primarily due to lower Engineered Systems revenue on a lower opening backlog. Service and Rentals revenues were down in the first quarter due to lower equipment sales and reseller activity.

The Canadian segment recorded an operating income of $2.6 million for the first quarter of 2020 compared to $5.1 million in the same period of 2019. Operating income decreased due to lower gross margin on lower revenue, partially offset by lower SG&A costs driven by mark-to-market impacts on share-based compensation.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, installation, construction 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 Rentals product line encompasses a fleet of natural gas compression, processing, and electric power equipment totalling over 685,000 horsepower on rent or available for rent globally, generating revenue from rental agreements, and the sale of rental equipment to customers. In addition to Enerflex's rental fleet, the Company's Rentals 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.

Recurring revenue is comprised of revenue from the Service and Rentals product lines, which are typically contracted and extend into the future. The Company aims to diversify and expand Service and Rentals 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 Rentals 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, 2020
($ Canadian thousands)		**Total**		**Engineered Systems**		**Service**		**Rentals**
Revenue	**$**	**365,740**	**$**	**225,393**	**$**	**86,693**	**$**	**53,654**
Cost of goods sold:								
Operating expenses		**255,995**		**173,333**		**64,114**		**18,548**
Depreciation and amortization		**16,013**		**2,110**		**966**		**12,937**
Gross margin	**$**	**93,732**	**$**	**49,950**	**$**	**21,613**	**$**	**22,169**

								Three months ended March 31, 2019
($ Canadian thousands)		Total		Engineered Systems		Service		Rentals
Revenue	$	484,902	$	345,462	$	91,516	$	47,924
Cost of goods sold:								
Operating expenses		379,296		291,750		69,958		17,588
Depreciation and amortization		16,836		1,486		773		14,577
Gross margin	$	88,770	$	52,226	$	20,785	$	15,759

INCOME TAXES

Income tax expense totaled $6.6 million or 15.0 percent of earnings before tax for the three months ended March 31, 2020, compared to $12.0 million or 41.4 percent of earnings before tax in the same period of 2019. Income tax expense and the effective tax rate for the first quarter of 2020 were lower primarily due to the exchange rate effects on tax basis and the effect of earnings taxed in foreign jurisdictions, partially offset by an increase in earnings before tax. During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted, which will reduce Enerflex's taxes in future periods. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

OUTLOOK

Enerflex's financial performance derives from strategic decisions to: 1) diversify product offerings for Engineered Systems; 2) focus on increasing the recurring revenue streams derived from new and existing long-term BOOM, rental, and service contracts; and 3) develop a geographically diversified business. Enerflex's capital allocation priorities in recent years have been oriented toward stabilizing cash flows and making the Company more resistant to the natural, yet unpredictable, cyclicality in commodity markets. Priorities have included significant investments in recurring revenue projects in the USA and ROW segments. While the reduction in global oil demand will significantly impact demand for Enerflex's products and services, these investments are expected to assist in stabilizing the Company's cash flow throughout this downturn.

Demand for the Company's Engineered Systems product offerings remains dependent on global capital investment in oil and natural gas, and all product lines are put under pressure when the macro environment is weakened. Uncertainty caused by a number of factors, most prominent being the COVID-19 pandemic and recent changes in supply and demand for oil, has reduced investment levels across the energy industry and tempered expectations for activity levels through 2020 and until a more constructive balance emerges for global oil demand. These dynamics are in addition to previously disclosed difficulties facing the industry including: 1) producers having made a general shift to funding growth capital expenditures from free cash flow; 2) constrained access to capital markets for producers; 3) uncertainty around global trade dynamics; and 4) political uncertainty, and in some cases may serve to accentuate these issues.

During the first quarter, Enerflex continued to experience steady demand for global after-market services and contract compression in key basins in the USA, however, the performance of these product lines remains dependent on environmental factors and traditional supply and demand dynamics. As recently announced, growth capital expenditures on new rental fleet assets in the USA have been reduced to include only expenditures connected to existing contractual obligations. Notwithstanding, the Company's current financial position affords it some flexibility to pursue additional growth opportunities, should they arise when the macro environment is more constructive. Overall, asset ownership continues to represent a very important growth prospect for the Company and we intend to continue deploying capital to this higher-margin, less-cyclical business, provided returns remain attractive through the short-term uncertainty currently being experienced. The Company continues to make progress on previously awarded BOOM projects in Latin America and the Middle East / Africa ("MEA") regions. However, COVID-19-related travel restrictions and limitations on worksite access are expected to delay the dates on which these projects were expected to commence operations and begin generating revenue, with commencement dates now being estimated at various times through mid- to late-2020. While the Company's financial performance has benefitted from the recurring revenue streams derived from its asset ownership and after-market services product lines, any continuation of market weakness may cause the Company's customers to further reduce capital budgets while simultaneously instituting cost cutting measures, thereby reducing demand for Enerflex's products and services, including reduced demand for rentals due to production shut-ins.

In response to the above realities, Enerflex has instituted the following regional-specific measures to preserve the strength of our balance sheet and maximize free cash flow:

- In aggregate, the Canadian and USA regions have reduced their total workforce by 20 percent from January 1 to May 1. Global workforce reductions in 2020 are expected to yield $33 million to $35 million in annualized savings.
- In addition, enacted the following temporary compensation reductions which are expected to yield savings of approximately $10 million to $12 million in 2020:
    a. Canada and USA regions enacted a 10 percent wage reduction.
    b. ROW regional management teams have enacted a 10 percent wage reduction.
    c. The Executive Management Team will enact a 10 percent wage reduction.
    d. The Board of Directors will enact a 10 percent compensation reduction.
- The Company is in the process of applying for the Canada Emergency Wage Subsidy that the Federal Government enacted to allow employers to mitigate further job losses in the Canadian region while dealing with impact of COVID-19. Enerflex will also continue to monitor eligibility for other government assistance programs in the jurisdictions we operate in.
- Instituted a hiring freeze, limited business travel expenses, decreased marketing expenditures, and reduced IT infrastructure and maintenance expenditures, except where critical.
- Reduced 2020 growth capital expenditures from approximately $210 million to approximately $90 million, subject to foreign exchange fluctuations between the U.S. and Canadian dollar.
- Reduced its dividend by 83 percent from the last quarter.

In the short term, Enerflex remains focused on preserving capital and maintaining balance sheet strength in response to uncertainty caused by the COVID-19 pandemic and recent market volatility. 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. 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 performance of the USA segment has been driven by a combination of international equipment orders, the U.S. industry's investment in shale oil and gas, along with recurring revenues from the Aftermarket Service and Contract Compression business units. While the U.S. industry and growth in the Permian have been impacted by global events, the Company believes that the increased presence of larger, more patient producers is supportive of the formation's long-term production and value. Increased activity by dry gas producers and the presence of Enerflex in 21 locations covering key resource plays including the Marcellus, Utica, Haynesville, and Niobrara positions the Company to capture further demand for Engineered Systems products and fullstream solutions, as well as contract compression assets to improve performance in maturing fields. The Company's contract compression fleet consists of approximately 325,000 horsepower, providing a more stable and predictable revenue source that the Company intends to continue to leverage and grow through 2020 and beyond, albeit at a more muted pace given dramatic market impacts in recent months that are expected to put pressure on Rentals product offering. Given the current commodity price environment, producers in the USA segment may elect to shut in production, which would reduce production volumes and negatively impact demand for Enerflex's products and services.

Rest of World

In the Rest of World segment, the Company continues to generate strong recurring revenue in both the MEA and Latin America regions. MEA continues to provide stable rental earnings with a rental fleet of approximately 100,000 horsepower. The Company continues to explore new markets and opportunities within this region, focusing on projects that provide long-term, stable cash flows.

In Latin America, Enerflex remains cautiously optimistic as many countries have indicated a renewed desire to develop oil and natural gas in recent periods. With investment opportunities becoming available, the global energy industry is returning to various prolific plays within the region. The Company is well positioned to provide products and services, and believes that there are near-term prospects within Argentina, Bolivia, Brazil, and Colombia, and mid- to longer-term prospects in Mexico.

Enerflex continues to make progress on previously awarded BOOM projects in MEA and Latin America. However, COVID-19-related travel restrictions and limitations on worksite access are expected to delay the dates on which certain of these projects were expected to commence operations and begin generating revenue, with commencement dates now being estimated at various times through mid- to late-2020.

In Australia, demand for Enerflex service and maintenance support remains solid. Liquified natural gas ("LNG") supply contracts are providing a stable demand for gas. Downward pressure on production costs are 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 is expected to slow down over the next quarter; however, multiple new opportunities have been approved by customers, despite the challenges presented by the decrease in oil prices and the COVID-19 pandemic. While Enerflex remains optimistic that these opportunities will continue to drive demand for the Company's products and services towards the second half of 2020, Enerflex is prepared to respond should our customer needs fall off sharply.

Canada

The Company expects that recent global developments will further constrain spending in the Canadian energy sector, exacerbating conditions faced by an industry that was already experiencing negative sentiment and the lack of consistent access to market. The combination of restricted access to financing in Canada, depressed oil prices and the currently unknown impact of COVID-19 has already resulted in significant additional reductions to capital budgets across the sector and raised the possibility of production shut-ins as Canadian oil benchmark pricing hits record lows. As long as current global forces continue to bring market uncertainty, the Company expects limited development potential in Canada. While progress is being made on pipelines and certain LNG projects, raising the likelihood of export capacity and offering some future relief to the Canadian gas industry, management still expects activity in Canada to be very subdued in 2020.

ENERFLEX STRATEGY

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

Across the Company, Enerflex looks to leverage its diversified international positioning to provide exposure to projects in growing natural gas markets, to offer integrated solutions spanning all phases of a project's life-cycle from engineering and design through to after-market service, with a focus on recurring revenue from Service and Rentals 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 an expanding LNG industry. For our recurring revenue product lines, the focus for the Service business has been on optimizing across the region while responding to market demand in all locations. For the Rentals product line, the organic expansion of the contract compression fleet has allowed Enerflex to increase 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, while investment in the contract compression fleet should drive growth and strong returns for the Rentals business.

Enerflex has focused its efforts in the ROW segment on growing primarily in the MEA and Latin America regions, through the sales, rental, and service of its products. In these regions, the Company has targeted ITK projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Successful projects have been completed in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America, and multiple projects secured in previous periods are scheduled to commence operations and begin generating recurring revenue in mid- to late-2020. Enerflex underscores the importance of BOOM solutions in this segment, as long-term contracts for rental and maintenance of this equipment align with the emphasis on growing recurring revenue streams and customers in this segment have proven to be receptive to these solutions. 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 continue to preserve market share in the natural gas sector, particularly in liquids-rich reservoirs, and to support the development of natural gas resources for the 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. The Company is able to offer 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 in order 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, the Company is focused on expanding the diversification of its 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 the Company 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.

($ Canadian thousands)		Three months ended March 31, **2020**		2019
EBITDA				
EBIT	**$**	**50,012**	$	33,346
Depreciation and amortization		**20,739**		21,931
EBITDA	**$**	**70,751**	$	55,277
Recurring Revenue				
Service	**$**	**86,693**	$	91,516
Rentals		**53,654**		47,924
Total Recurring Revenue	**$**	**140,347**	$	139,440
ROCE				
Trailing 12-month EBIT	**$**	**250,568**	$	165,697
Capital Employed – beginning of period				
Net debt[1]	**$**	**334,232**	$	117,848
Shareholders' equity		**1,342,787**		1,282,519
	$	**1,677,019**	$	1,400,367
Capital Employed – end of period				
Net debt[1]	**$**	**402,717**	$	38,725
Shareholders' equity		**1,458,760**		1,270,629
	$	**1,861,477**	$	1,309,354
Average Capital Employed[2]	**$**	**1,621,876**	$	1,363,236
Return on Capital Employed		**15.4%**		12.2%

[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

($ Canadian thousands)		Three months ended March 31, 2020		2019
Cash provided by operating activities	$	9,333	$	122,334
Net change in non-cash working capital and other		(44,232)		69,004
	$	53,565	$	53,330
Add-back:				
Net finance costs		5,969		4,375
Current income tax expense		6,336		6,556
Proceeds on the disposal of property, plant and equipment		86		24
Proceeds on the disposal of rental equipment		2,663		1,252
Deduct:				
Net interest paid		(1,483)		139
Net cash taxes paid		(6,160)		(9,012)
Additions to property, plant and equipment		(4,432)		(14,966)
Additions to rental equipment:				
Growth		(60,873)		(21,723)
Maintenance		(1,787)		(2,349)
Dividends paid		(10,312)		(9,349)
Free cash flow	$	(16,428)	$	8,277

For the three months ended March 31, 2020, free cash flow decreased compared to the same period in 2019. This decrease was primarily due to growth capital expenditures on the rental fleet, which totaled $60.9 million for the first quarter of 2020. As recently announced, Enerflex will proceed only with those growth capital expenditures connected to existing contractual obligations, as well as required maintenance capital expenditures. Notwithstanding, the Company's current financial position affords it some flexibility to pursue additional growth opportunities, should they arise when the macro environment is more constructive. Under favourable circumstances, additional capital may be directed to growth opportunities in any of our regions.

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at March 31, 2020 compared to December 31, 2019:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(61.8)	The decrease in current assets is due to lower cash, accounts receivable, and contract assets, partially offset by higher inventories. Cash decreased due to expenditures on direct material inventory and rental equipment, while accounts receivable decreased due to collection of trade receivables and lower overall activity levels and contract assets decreased due to lower activity levels and amounts reclassified to other assets. Higher inventory is primarily due to purchases of major equipment with long lead times, which were ordered in prior periods and delivered in the current period.
Property, plant and equipment	$10.2	The increase in property, plant and equipment is due to additions during the year and the strengthening of the U.S. dollar that impacts the revaluation of U.S. dollar denominated property, plant and equipment, partially offset by depreciation on property, plant and equipment assets.
Rental equipment	$101.8	The increase in rental equipment is due to additions during the year, primarily on the contract compression fleet in the USA, as well as the strengthening of the U.S. dollar that impacts the revaluation of U.S. dollar denominated rental equipment partially offset by depreciation and impairment charges.
Other assets	$25.8	The increase in other assets is largely due to a balance previously included in contract assets at December 31, 2019 that was reclassified to a long-term receivable during the three months ended March 31, 2020.
Goodwill	$28.0	The increase in goodwill is due to the strengthening of the U.S. dollar that impacts the revaluation of U.S. dollar denominated goodwill.
Current liabilities	$(56.4)	The decrease in current liabilities is due to lower accounts payable and deferred revenues. Lower accounts payable was due to lower overall activity levels, while lower deferred revenue was due to lower overall activity levels, partially offset by the strengthening of the U.S. dollar.
Long-term debt	$43.9	The increase in long-term debt is due to the strengthening of the U.S. dollar that impacts the revaluation of U.S. dollar denominated debt, as well as draws on the Bank Facility to fund inventory and capital expenditure commitments, which are front-loaded for the year and should see a significant slowdown in the second half of 2020.
Shareholders' equity before non-controlling interest	$116.1	Shareholders' equity before non-controlling interest increased due to $37.3 million net earnings, $88.6 million unrealized income on translation of foreign operations and $0.5 million of stock options impact, partially offset by dividends of $10.3 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2020, 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, 2020, the Company held cash and cash equivalents of $71.7 million and had cash drawings of $144.2 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $529.8 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 (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio of 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage of 17:1 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 March 31, 2020	2019
Cash, beginning of period	**$ 96,255**	$ 326,864
Cash provided by (used in):		
Operating activities	**9,333**	122,334
Investing activities	**(63,735)**	(33,488)
Financing activities	**29,853**	(110,132)
Exchange rate changes on foreign currency cash	**(35)**	(546)
Cash, end of period	**$ 71,671**	$ 305,032

Operating Activities

For the three months ended March 31, 2020, cash provided by operating activities was lower than the same period in 2019, with negative movements in non-cash working capital partially offset by improved net earnings. Non-cash working capital was primarily impacted by lower accounts payable and higher inventories, partially offset by lower accounts receivable and contract assets. Movements in non-cash working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

For the three months ended March 31, 2020, cash used in investing activities increased due to growth capital expenditures on the rental fleet, which totaled $60.9 million in the first quarter of 2020.

Financing Activities

For the three months ended March 31, 2020, cash provided by financing activities increased primarily due to draws on long-term debt, compared to repayments of long-term debt in the same period in 2019.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue	Net earnings	Earnings per share – basic	Earnings per share – diluted
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
March 31, 2019	484,902	16,969	0.19	0.19
December 31, 2018	466,842	32,480	0.37	0.36
September 30, 2018	445,803	37,696	0.43	0.42
June 30, 2018	404,848	20,367	0.23	0.23
March 31, 2018	385,780	10,873	0.12	0.12
December 31, 2017	450,065	26,702	0.30	0.30
September 30, 2017	315,019	25,188	0.28	0.28

SUPPLEMENTAL RISK FACTORS

In the normal course of business, the Company is exposed to financial, operating, and regulatory risks that may potentially impact its operating results. Enerflex previously disclosed these risks as part of the Company's MD&A for the year ended December 31, 2019. As additional risks are identified, or changes are made to the Company's assessment of previously disclosed risks, Enerflex will disclose the nature and potential impact on the Company's business, financial condition, and results of operations. The below supplemental risk factors should be read in conjunction with the augmented list in Enerflex's MD&A for the year ended December 31, 2019 in the section entitled "Risk Management".

Public Health Crises Including COVID-19

The Company's business, operations, and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics, or other health crises, including the COVID-19 outbreak. Such public health crises may adversely affect Enerflex, causing a slowdown or temporary suspension of Enerflex's operations in geographic locations impacted by an outbreak, including due to: 1) reduced global economic activity and a corresponding decrease in demand for oil and natural gas, which could result in producers being forced to shut in production and serve to lower demand for the Company's products and services; 2) impaired supply chain as a result of mass quarantines, lockdowns, or border closures, thereby limiting the supply of goods and services used in Enerflex's operations; and 3) restricted workforce as a result of quarantines and health impacts, rendering employees unable to work or travel. Any limitations imposed on the mobility of Enerflex's employees may have an impact on the Company's ability to complete projects, including BOOM or ITK projects requiring installation at a third-party site. In the event that Enerflex is unable to meet contractual requirements due to such public health crises, and is unable to claim force majeure relief under the applicable contract or otherwise secure concessions from customers, the Company's operational or financial results may be adversely impacted.

The COVID-19 outbreak has spread globally, causing companies and various countries to impose restrictions such as quarantines, business closures, and travel restrictions. While these effects are expected to be temporary, the duration of the business disruptions internationally and related financial impact cannot be reasonably estimated at this time. Thus, the extent to which COVID-19 may impact Enerflex is uncertain; however, it is possible that COVID-19 may have a material adverse effect on the Company's business, results of operations, cash flows and financial condition.

Payment of Future Cash Dividends

The amount and frequency of future cash dividends paid by the Company, if any, is subject to the discretion of the Board of Directors and may vary depending on a variety of factors and conditions existing from time to time, including, among other things, significant declines and volatility in commodity prices, restricted cash flows, capital expenditure requirements, debt service requirements, operating costs, foreign exchange rates, and the satisfaction of the liquidity and solvency tests imposed by applicable corporate law for the declaration and payment of dividends. Depending on these and various other factors, many of which are beyond the control of Enerflex, future cash dividends could be reduced or suspended entirely or made less frequently. The market value of the common shares may deteriorate if cash dividends are reduced or suspended.

CAPITAL RESOURCES

On April 30, 2020, Enerflex had 89,678,845 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 2020, the Company declared a quarterly dividend of $0.02 per share. This new dividend amount represents a decrease of 82.6 percent, and was previously communicated in a press release dated March 17, 2020. The decrease in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. 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, 2020, the Company had drawn $144.2 million against the Bank Facility (December 31, 2019 - $121.3 million). The weighted average interest rate on the Bank Facility at March 31, 2020 was 3.1 percent (December 31, 2019 – 3.5 percent).

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

($ Canadian thousands)		**March 31, 2020**		December 31, 2019
Drawings on Bank Facility	**$**	**144,167**	$	121,328
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**163,964**		151,374
Senior Notes due December 15, 2027		**129,309**		120,916
Deferred transaction costs		**(3,052)**		(3,131)
	$	**474,388**	$	430,487

At March 31, 2020, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $348.1 million, and $129.3 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying unaudited 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 audited 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, 2020 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, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 2, 2020, to shareholders of record on May 14, 2020. This new dividend amount represents a decrease of 82.6 percent, and was previously communicated in a press release dated March 17, 2020. The decrease in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. 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.

Subsequent to the end of the quarter, the bill containing the Canada Emergency Wage Subsidy ("CEWS") became a law in Canada. The CEWS program provides a 75 percent wage subsidy to eligible employers for up to 12 weeks, retroactive to March 15, 2020. The Company expects to receive funding from CEWS beginning in the second quarter of 2020, and has not recorded any amounts relating to this program in the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020. Enerflex continues to monitor for programs in other jurisdictions in which the Company operates.

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; 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.

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, 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. For an augmented discussion of the risk factors and uncertainties that affect or may affect Enerflex, the reader is directed to the section entitled “Risk Management” in Enerflex’s MD&A for the year ended December 31, 2019 (available on www.sedar.com) as well the section entitled “Supplemental Risk Factors” in this MD&A. 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 that such statements should not be unduly relied upon.

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

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION *(unaudited)*

($ Canadian thousands)		March 31, 2020		(restated)[1] December 31, 2019
Assets				
Current assets				
Cash and cash equivalents	**$**	**71,671**	$	96,255
Accounts receivable (Note 2)		**329,607**		384,021
Contract assets (Note 2)		**110,481**		130,392
Inventories (Note 3)		**306,547**		269,385
Income taxes receivable		**7,778**		6,626
Derivative financial instruments (Note 15)		**774**		152
Other current assets		**10,441**		12,223
Total current assets		**837,299**		899,054
Property, plant and equipment (Note 4)		**118,705**		108,551
Rental equipment (Note 4)		**743,929**		642,095
Lease right-of-use assets (Note 5)		**60,169**		60,288
Deferred tax assets (Note 11)		**49,029**		48,624
Other assets		**52,231**		26,410
Intangible assets		**21,526**		22,058
Goodwill (Note 6)		**601,915**		573,928
Total assets	**$**	**2,484,803**	$	2,381,008
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**291,802**	$	333,605
Provisions (Note 7)		**17,160**		18,250
Income taxes payable		**8,547**		8,074
Deferred revenues (Note 8)		**73,777**		89,409
Current portion of lease liabilities (Note 10)		**15,197**		14,172
Deferred financing income		**97**		88
Derivative financial instruments (Note 15)		**994**		375
Total current liabilities		**407,574**		463,973
Long-term debt (Note 9)		**474,388**		430,487
Lease liabilities (Note 10)		**52,634**		52,828
Deferred tax liabilities (Note 11)		**83,172**		76,256
Other liabilities		**8,275**		14,677
Total liabilities	**$**	**1,026,043**	$	1,038,221
Shareholders' equity				
Share capital	**$**	**375,524**	$	375,524
Contributed surplus		**655,574**		655,107
Retained earnings		**255,799**		228,843
Accumulated other comprehensive income		**170,445**		81,779
Total shareholders' equity before non-controlling interest		**1,457,342**		1,341,253
Non-controlling interest		**1,418**		1,534
Total shareholders' equity and non-controlling interest		**1,458,760**		1,342,787
Total liabilities and shareholders' equity	**$**	**2,484,803**	$	2,381,008

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

[1] Certain December 31, 2019 balances have been reclassified. Refer to Note 1(b) for additional detail.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended March 31, 2020	2019
Revenue (Note 12)	**$ 365,740**	$ 484,902
Cost of goods sold	**272,008**	396,132
Gross margin	**93,732**	88,770
Selling and administrative expenses	**43,512**	55,823
Operating income	**50,220**	32,947
Gain on disposal of property, plant and equipment (Note 4)	**43**	5
Equity earnings (loss) from associate	**(251)**	394
Earnings before finance costs and income taxes	**50,012**	33,346
Net finance costs (Note 14)	**5,969**	4,375
Earnings before income taxes	**44,043**	28,971
Income taxes (Note 11)	**6,605**	12,002
Net earnings	**$ 37,438**	$ 16,969
Net earnings attributable to:		
Controlling interest	**$ 37,269**	$ 16,829
Non-controlling interest	**169**	140
	$ 37,438	$ 16,969
Earnings per share – basic	**$ 0.42**	$ 0.19
Earnings per share – diluted	**$ 0.42**	$ 0.19
Weighted average number of shares – basic	**89,678,845**	89,200,065
Weighted average number of shares – diluted	**89,678,845**	89,701,528

See accompanying Notes to the interim condensed consolidated financial statements.

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

		Three months ended March 31,		
($ Canadian thousands)		**2020**		2019
Net earnings	**$**	**37,438**	$	16,969
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		**(68)**		(509)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense		**60**		496
Unrealized gain (loss) on translation of foreign denominated debt		**(8,829)**		1,244
Unrealized gain (loss) on translation of financial statements of foreign operations		**97,218**		(24,735)
Other comprehensive income (loss)	**$**	**88,381**	$	(23,504)
Total comprehensive income (loss)	**$**	**125,819**	$	(6,535)
Other comprehensive income (loss) attributable to:				
Controlling interest	**$**	**88,666**	$	(23,357)
Non-controlling interest		**(285)**		(147)
	$	**88,381**	$	(23,504)

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, 2020		2019
Operating Activities				
Net earnings	**$**	**37,438**	$	16,969
Items not requiring cash and cash equivalents:				
Depreciation and amortization		**20,739**		21,931
Equity (earnings) loss from associate and joint venture		**251**		(394)
Deferred income taxes (Note 11)		**269**		5,446
Share-based compensation expense (recovery) (Note 13)		**(5,089)**		9,383
Gain on sale of property, plant and equipment (Note 4)		**(43)**		(5)
		53,565		53,330
Net change in non-cash working capital and other (Note 16)		**(44,232)**		69,004
Cash provided by operating activities	**$**	**9,333**	$	122,334
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$**	**(4,432)**	$	(14,966)
Rental equipment (Note 4)		**(62,660)**		(24,072)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)		**86**		24
Rental equipment (Note 4)		**2,663**		1,252
Change in other assets		**608**		4,274
Cash used in investing activities	**$**	**(63,735)**	$	(33,488)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 16)	**$**	**43,672**	$	(101,476)
Lease liability principal repayment (Note 10)		**(2,633)**		(3,143)
Lease interest (Note 10)		**(874)**		(529)
Dividends		**(10,312)**		(9,349)
Stock option exercises		**-**		4,365
Cash provided by (used in) financing activities	**$**	**29,853**	$	(110,132)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$**	**(35)**	$	(546)
Decrease in cash and cash equivalents		**(24,584)**		(21,832)
Cash and cash equivalents, beginning of period		**96,255**		326,864
Cash and cash equivalents, end of period	**$**	**71,671**	$	305,032

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 shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2019	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	16,829	-	-	-	16,829	140	16,969
Other comprehensive income (loss)	-	-	-	(23,344)	(13)	(23,357)	(23,357)	(147)	(23,504)
Effect of stock option plans	5,447	1,016	-	-	-	-	6,463	-	6,463
Dividends	-	-	(9,389)	-	-	-	(9,389)	-	(9,389)
At March 31, 2019	$ 371,567	$ 655,340	$ 123,145	$ 120,219	$ (1,084)	$ 119,135	$ 1,269,187	$ 1,442	$ 1,270,629
At January 1, 2020	$ 375,524	$ 655,107	$ 228,843	$ 82,760	$ (981)	$ 81,779	$ 1,341,253	$ 1,534	$ 1,342,787
Net earnings	-	-	37,269	-	-	-	37,269	169	37,438
Other comprehensive income (loss)	-	-	-	88,674	(8)	88,666	88,666	(285)	88,381
Effect of stock option plans	-	467	-	-	-	-	467	-	467
Dividends	-	-	(10,313)	-	-	-	(10,313)	-	(10,313)
At March 31, 2020	**$ 375,524**	**$ 655,574**	**$ 255,799**	**$ 171,434**	**$ (989)**	**$ 170,445**	**$ 1,457,342**	**$ 1,418**	**$ 1,458,760**

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 7, 2020.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020 and 2019 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, 2019. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior period amounts have been reclassified between contract assets and deferred revenues to better align with contractual terms for these projects. Contract assets and deferred revenues as at December 31, 2019 have been reduced by $53,498 from previously disclosed balances.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars rounded to the nearest thousands, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost convention with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in annual consolidated financial statements for the year ended December 31, 2019.

(c) Supplemental Accounting Estimates and Judgement

The timely preparation of financial statements requires that management make estimates and assumptions and use judgement. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in the economic environment have required the Company to reassess some estimates and judgement or have caused new and/or significant impacts on previous estimates and judgement. Enerflex previously disclosed significant accounting estimates and areas of judgements at December 31, 2019 as part of the Company's 2019 Annual Report. As additional estimates or areas of judgements are identified, or changes are made to the Company's assessment of previously disclosed estimates or areas of judgements, Enerflex will disclose the nature and potential impact of these new or revised judgements, estimates and assumptions.

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using percentage-of-completion accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. Certain contracts also include aspects of variable consideration, such as liquidated damages on project delays. For these contracts, management must make estimations as to the likelihood of the variable consideration being recognized or constrained, based on the status of each project, the potential value of variable consideration, communication received from the customer, and other factors. The Company continues to monitor these factors in response to recent events, however no changes have been made to management's previous assessments. Changes in estimated cost or revenue associated with a project, including variable consideration, may result in material changes to revenue and gross margin recognized on certain projects.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. Management's assessment of the impact of COVID-19 and negative economic factors surrounding the oil and gas industry on expected credit losses requires significant judgement, as it is not directly comparable with any recent similar events. Future economic conditions, especially around the oil and gas industry, may have a significant impact on the collectability of trade receivables from customers and the corresponding expected credit losses for trade receivables. To date, the Company has not experienced increased levels of defaults or customer distress as a result of recent events. Management will continue to monitor the creditworthiness of customers and will assess if changes in future economic conditions indicate the requirement for any additional allowance.

Impairment of Non-Financial Assets and Goodwill

The Company is required to assess at the end of each reporting period whether there are any indicators that an asset may be impaired. Management determined that there were indicators of impairment of the Company's tangible assets at March 31, 2020, as a result of the negative economic factors surrounding the oil and gas industry, and the impact of the recent COVID-19 pandemic. Despite these indicators, management believes the long-term value of the Company's tangible assets remains appropriate, and has not recorded an impairment beyond any amounts required by the Company's policies. Management continues to monitor that the value of tangible assets reflects the at least the recoverable amount of those assets.

The Company tests goodwill for impairment at least on an annual basis, or when there is any indication that goodwill may be impaired. This requires an estimation of the value-in-use of the groups of cash generating units ("CGUs") to which the goodwill is allocated. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from each group of CGUs and use judgement to determine a suitable discount rate in order to calculate the present value of those cash flows, as detailed in Note 6.

Income Taxes

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The basis for this estimate is value-in-use calculations and the 2020 financial budgets approved by the Board of Directors, and management projections for 2021 and 2022. Management determined that previous assessments around the recoverability of deferred tax assets have not changed as a result of recent events, however management will continue to assess in response to changing economic conditions.

Government Grants

In response to the COVID-19 pandemic and associated restrictions, including mandated quarantines, business closures, and travel restrictions, governments in certain jurisdictions in which the Company does business have established programs to assist companies and individuals through the period for which these restrictions are in place. Management has determined that the Company may qualify for some of these programs, and will record such government grants to the extent that funding is probable. The Company has not currently recorded any government grants in the first quarter results.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

		March 31, 2020		December 31, 2019
Trade receivables	**$**	**316,829**	$	373,480
Less: allowance for doubtful accounts		**(2,632)**		(2,144)
Trade receivables, net	**$**	**314,197**	$	371,336
Other receivables		**15,410**		12,685
Total accounts receivable	**$**	**329,607**	$	384,021

Aging of trade receivables:

		March 31, 2020		December 31, 2019
Current to 90 days	$	215,379	$	321,058
Over 90 days		101,450		52,422
	$	316,829	$	373,480

Subsequent to the end of the quarter, the Company collected $27.3 million of trade receivables that were included in over 90 days at March 31, 2020.

Movement in allowance for doubtful accounts:

		March 31, 2020		December 31, 2019
Balance, January 1	$	2,144	$	992
Impairment provision additions on receivables		346		2,162
Amounts written off during the year as uncollectible		(36)		(951)
Currency translation effects		178		(59)
Closing balance	$	2,632	$	2,144

Movement in contract assets:

		March 31, 2020		December 31, 2019
Balance, January 1	$	130,392	$	158,027
Unbilled revenue recognized		90,611		645,276
Amounts billed		(97,694)		(666,896)
Amounts transferred to Other assets		(26,625)		-
Currency translation effects		13,797		(6,015)
Closing balance	$	110,481	$	130,392

Amounts recognized as contract assets are typically billed to customers within three months. Amounts reclassified to other assets relate to a balance previously included in contract assets at December 31, 2019 that was revised to a long-term receivable during the three months ended March 31, 2020.

NOTE 3. INVENTORIES

Inventories consisted of the following:

		March 31, 2020		December 31, 2019
Direct materials	$	201,345	$	182,692
Work-in-process		38,221		33,403
Repair and distribution parts		48,864		42,540
Equipment		18,117		10,750
Total inventories	$	306,547	$	269,385

The amount of inventory and overhead costs recognized as an expense and included in cost of goods for the three months ended March 31, 2020 was $272.0 million (March 31, 2019 – $396.1 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 consolidated statements of earnings and included in cost of goods sold March 31, 2020 was $1.4 million (March 31, 2019 – $0.6 million).

Inventory levels increased during the quarter due to purchases of major equipment with long lead times which were ordered in prior periods and delivered in the current period. The Company expects to realize this major equipment inventory into Engineered Systems projects and new contract compression units, however the timing and extent to which inventory can be utilized is dependent on demand.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three months ended March 31, 2020, the Company added $4.4 million in property, plant and equipment (March 31, 2019 – $15.0 million) and $62.7 million in rental equipment (March 31, 2019 – $24.1 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the three months ended March 31, 2020 was an increase of $8.8 million on property, plant and equipment and $54.0 million on rental equipment (March 31, 2019 – decrease of $1.3 million and $10.7 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2020 was $15.1 million (March 31, 2019 – $16.3 million), of which $14.3 million was included in cost of goods sold (March 31, 2019 – $15.4 million) and $0.8 million was included in selling and administrative expenses (March 31, 2019 – $0.9 million).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three months ended March 31, 2020, the Company added $1.9 million in lease right-of-use assets (March 31, 2019 – $3.2 million). The impact of foreign exchange movements on lease right-of-use assets denominated in a foreign currency during the three months ended March 31, 2020 was an increase of $1.4 million (March 31, 2019 – increase of $0.1 million).

Depreciation of lease right-of-use assets included in earnings for the three months ended March 31, 2020 was $3.4 million (March 31, 2019 – $2.9 million), of which $1.8 million was included in cost of goods sold (March 31, 2019 – $1.4 million) and $1.6 million was included in selling and administrative expenses (March 31, 2019 – $1.5 million).

NOTE 6. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		March 31, 2020		December 31, 2019
Balance, January 1	**$**	**573,928**	$	598,831
Currency translation effects		**27,987**		(24,903)
	$	**601,915**	$	573,928

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. For the three months ended March 31, 2020, the Company determined that there were indicators of impairment resulting from the negative economic factors surrounding the oil and gas industry, and the impact of the recent COVID-19 pandemic.

In assessing whether goodwill has been impaired, the carrying amount of the segment (including goodwill) is compared with its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and value-in-use.

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at March 31, 2020. Management has adopted a five-year projection period to assess each segment's value-in-use. The cash flow projections are based on the 2020 financial budgets approved by the Board of Directors and management projections for 2021 and 2022, and include an inflation factor of 2.0 percent for years beyond 2022, which is consistent with the approach taken in the prior year.

For the current year, the Board approved budget has been updated based on changes in assumptions and forecasts approved by management at March 31, 2020. Management is reviewing the effects of recent economic events, and their impact on previously approved long-term budgets.

Key Assumptions Used in Value-In-Use Calculations:

The calculation of value-in-use for the Company's segments is most sensitive to the following assumptions:

- Earnings Before Finance Costs and Taxes: Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each one percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be $6.3 million; and
- Discount Rate: Management has used an average post-tax discount rate of 13.0 percent per annum. The rate represents the Company's weighted average cost of capital, using the five-year average of the Company's debt to total enterprise value, adjusted for a number of risk factors specific to each segment. For each one percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be $84.5 million.

The Company completed its assessment for goodwill impairment and determined that the recoverable amount for the USA, Rest of World, and Canada segments exceeded the carrying amount using a range of discount rates consistent with year-end.

A reasonable change in assumptions for the USA and Canada segments would not trigger an impairment. In the Rest of World segment, a reasonable change in the discount rate or long-term cash flows could lead to an impairment. Management will continue to assess the long-term projected cash flows in this segment, as recent factors may cause a material variance from previously used cash flow projections. Management notes that there is a potential for future impairments as more certainty around future cash flows is achieved.

NOTE 7. PROVISIONS

	March 31, 2020	December 31, 2019
Warranty provision	$ 15,174	$ 15,563
Legal provision	1,986	1,818
Restructuring provision	-	869
	$ 17,160	$ 18,250

NOTE 8. DEFERRED REVENUES

	March 31, 2020	December 31, 2019
Balance, January 1	$ 89,409	$ 348,804
Cash received in advance of revenue recognition	89,278	424,737
Revenue subsequently recognized	(115,597)	(673,473)
Currency translation effects	10,687	(10,659)
Closing balance	$ 73,777	$ 89,409

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, 2023 (the "Maturity Date"). The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. In addition, the Bank Facility may be increased by $150.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

The composition of the borrowings on the Bank Facility and the Company's senior unsecured notes ("Notes") was as follows:

		March 31, 2020		December 31, 2019
Drawings on Bank Facility	$	**144,167**	$	121,328
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**163,964**		151,374
Notes due December 15, 2027		**129,309**		120,916
Deferred transaction costs		**(3,052)**		(3,131)
	$	**474,388**	$	430,487

For the three months ended March 31, 2020, movement in U.S. dollar foreign exchange rates resulted in an increase of $28.5 million in U.S. dollar denominated long-term debt (December 31, 2019 – decrease of $14.2 million).

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2020 was 3.1 percent (December 31, 2019 – 3.5 percent). At March 31, 2020, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $348.1 million, and $129.3 million thereafter.

NOTE 10. LEASE LIABILITIES

		March 31, 2020		December 31, 2019
Balance, January 1	$	**67,000**	$	39,438
Additions		**1,875**		41,973
Lease interest		**874**		2,586
Payments made against lease liabilities		**(3,505)**		(15,137)
Currency translation effects and other		**1,587**		(1,860)
Closing balance	$	**67,831**	$	67,000
Current portion of lease liabilities	$	**15,197**	$	14,172
Non-current portion of lease liabilities		**52,634**		52,828
	$	**67,831**	$	67,000

In addition to the lease payments made above, during the three months ended March 31, 2020, the Company paid $0.3 million (March 31, 2019 – $0.2 million) relating to short-term and low-value leases which were expensed as incurred. During the three months ended March 31, 2020, the Company also paid $0.4 million (March 31, 2019 – $0.3 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.2 million (March 31, 2019 – $0.1 million) was included in cost of goods sold and $0.2 million (March 31, 2019 – $0.2 million) was included in selling and administrative expenses. Interest expense on lease liabilities was $0.9 million for the three months ended March 31, 2020 (March 31, 2019 – $0.5 million). Total cash outflow for leases for the three months ended March 31, 2020 was $4.2 million (March 31, 2019 – $4.0 million).

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

		March 31, 2020
2020	$	**12,869**
2021		**14,058**
2022		**11,599**
2023		**8,165**
2024		**5,659**
Thereafter		**31,745**
	$	**84,095**
Less:		
Imputed interest		**15,576**
Short-term leases		**648**
Low-value leases		**40**
	$	**67,831**

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,		2020		2019
Current income taxes	$	**6,336**	$	6,556
Deferred income taxes		**269**		5,446
	$	**6,605**	$	12,002

(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,		2020		2019
Earnings before income taxes	$	**44,043**	$	28,971
Canadian statutory rate		**25.1%**		27.0%
Expected income tax provision	$	**11,055**	$	7,822
Add (deduct):				
Exchange rate effects on tax basis		**(3,996)**		3,233
Earnings taxed in foreign jurisdictions		**(1,038)**		648
Amounts not deductible (taxable) for tax purposes		**585**		440
Impact of accounting for associates and joint ventures		**21**		(144)
Other		**(22)**		3
Income tax expense from continuing operations	$	**6,605**	$	12,002

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2019 – 15.0 percent) and provincial income tax rates of 10.1 percent (2019 – 12.0 percent). During the second quarter of 2019, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 10.0 percent for 2020, 9.0 percent for 2021, and 8.0 percent for 2022 and thereafter.

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,		**2020**		2019
Engineered Systems	**$**	**225,393**	$	345,462
Service		**86,693**		91,516
Rentals		**53,654**		47,924
Total revenue	**$**	**365,740**	$	484,902

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

Three months ended March 31,		**2020**		2019
United States	**$**	**175,491**	$	283,157
Canada		**66,246**		91,789
Nigeria		**51,913**		14,639
Australia		**17,507**		22,058
Oman		**16,080**		25,893
Bahrain		**11,389**		11,017
Mexico		**9,896**		11,000
Argentina		**6,534**		4,337
Colombia		**2,379**		6,826
Brazil		**2,305**		2,671
Kuwait		**1,912**		2,016
Other		**4,088**		9,499
Total revenue	**$**	**365,740**	$	484,902

The following table outlines the Company's unsatisfied performance obligations, by product line, as at March 31, 2020:

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	392,861	$	4,897	$	-	$	397,758
Service		87,221		39,298		142,138		268,657
Rentals		170,507		65,908		252,746		489,161
	$	**650,589**	**$**	**110,103**	**$**	**394,884**	**$**	**1,155,576**

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,		2020		2019
Equity settled share-based payments	**$**	**467**	$	2,098
Cash settled share-based payments		**(5,556)**		7,285
Share-based compensation expense (recovery)	**$**	**(5,089)**	$	9,383

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 2020. 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, 2020 included in current liabilities was $1.5 million (December 31, 2019 – $2.4 million) and in other long term liabilities was $6.1 million (December 31, 2019 - $10.0 million).

(b) Equity-Settled Share-Based Payments

			March 31, 2020			December 31, 2019
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Options outstanding, beginning of period	**3,565,521**	**$**	**14.67**	3,662,698	$	14.74
Granted	-		-	890,836		13.38
Exercised[1]	-		-	(595,224)		12.52
Forfeited	-		-	(371,422)		15.67
Expired	-		-	(21,367)		14.91
Options outstanding, end of period	**3,565,521**	**$**	**14.67**	3,565,521	$	$14.67
Options exercisable, end of period	**1,427,608**	**$**	**14.93**	1,427,608	$	$14.93

[1]No options were exercised for the three months ended March 31, 2020. The weighted average share price of Options at the date of exercise for the three months ended March 31, 2019 was $19.45.

The following table summarizes options outstanding and exercisable at March 31, 2020:

	Options Outstanding				Options Exercisable			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$11.69 – $13.51	1,106,811	3.57	$	12.39	594,929	2.72	$	12.27
$13.52 – $15.94	1,469,275	4.64		14.64	449,776	2.35		15.04
$15.95 – $20.75	989,435	4.42		17.28	382,903	2.94		18.86
Total	**3,565,521**	**4.25**	**$**	**14.67**	**1,427,608**	**2.66**	**$**	**14.93**

(c) Cash-Settled Share-Based Payments

During the three months ended March 31, 2020, the value of director's compensation and executive bonuses elected to be received in DSUs totalled $1.2 million (March 31, 2019 - $0.6 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2020	721,820	$	13.95
Granted	189,706		6.53
In lieu of dividends	6,530		12.11
DSUs outstanding, March 31, 2020	**918,056**	**$**	**12.45**

NOTE 14. FINANCE COSTS AND INCOME

Three months ended March 31,		**2020**		2019
Finance Costs				
Short and long-term borrowings	**$**	**5,275**	$	5,227
Interest on lease liability		**874**		529
Total finance costs	**$**	**6,149**	$	5,756
Finance Income				
Bank interest income	**$**	**157**	$	1,356
Income from finance leases		**23**		25
Total finance income	**$**	**180**	$	1,381
Net finance costs	**$**	**5,969**	$	4,375

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2020 were designated in the same manner as they were at December 31, 2019. Accordingly, with the exception of the long-term debt Notes, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at March 31, 2020 was $333.3 million and $305.0 million, respectively (December 31, 2019 – $312.3 million and $328.0 million, respectively). The fair value of these Notes at March 31, 2020 was determined on a discounted cash flow basis with a weighted average discount rate of 7.0 percent (December 31, 2019 – 3.8 percent).

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at March 31, 2020:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**11,688**	April 2020 – January 2021
Sales contracts	USD	**(21,231)**	April 2020 – December 2020
Purchase contracts	EUR	**72**	April 2020 – August 2020

At March 31, 2020, the fair value of derivative financial instruments classified as financial assets was $0.8 million, and as financial liabilities was $1.0 million (December 31, 2019 – $0.2 million and $0.4 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 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 $63.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2020. The following table shows the sensitivity to a 5 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	**$ 1,790**	**$ (20)**	**$ 38**
Financial instruments held in foreign operations			
Other comprehensive income	**$ 17,780**	**$ 710**	**$ 209**
Financial instruments held in Canadian operations			
Earnings before income taxes	**$ (11,124)**	**$ -**	**$ -**

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, 2020 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 Facility however, is subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank Facility, the change in annual interest expense would be $1.4 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 Facility for future drawings to meet the Company's future growth targets. As at March 31, 2020, the Company held cash and cash equivalents of $71.7 million and had drawn $144.2 million against the Bank Facility, leaving it with access to $529.8 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio of 1.2:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 17:1 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, 2020:

		Less than 3 months		3 months to 1 year		Greater than 1 year		Total
Derivative financial instruments								
Foreign currency forward contracts	$	722	$	272	$	-	$	994
Accounts payable and accrued liabilities		291,802		-		-		291,802
Long-term debt - Bank Facility		-		-		144,167		144,167
Long-term debt - Notes		-		-		333,273		333,273
Other long-term liabilities		-		-		8,275		8,275

The Company expects that cash flows from operations in 2020, 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,		2020		2019
Net change in non-cash working capital and other				
Accounts receivable	**$**	**54,414**	$	117,503
Contract assets		**19,911**		20,615
Inventories		**(37,162)**		(35,774)
Deferred revenue		**(15,632)**		(43,459)
Accounts payable and accrued liabilities, provisions, and income taxes payable		**(42,420)**		10,847
Foreign currency and other		**(23,343)**		(728)
	$	**(44,232)**	$	69,004

Cash interest and taxes paid and received during the period:

Three months ended March 31,		2020		2019
Interest paid – short- and long-term borrowings	**$**	**725**	$	682
Interest paid – lease liabilities		**874**		529
Total interest paid	**$**	**1,599**	$	1,211
Interest received		**116**		1,350
Taxes paid		**6,394**		9,038
Taxes received		**234**		26

Changes in liabilities arising from financing activities during the period:

Three months ended March 31,		2020		2019
Long-term debt, opening balance	$	430,487	$	444,712
Changes from financing cash flows		15,285		(94,950)
The effect of changes in foreign exchange rates		28,536		(6,531)
Amortization of deferred transaction costs		229		521
Other changes		(149)		5
Long-term debt, closing balance	$	474,388	$	343,757

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

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

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

2020	$	115,290
2021		3,160
2022		1,173

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 Rentals product line revenues have been stable throughout the year. Rentals 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, 2020, the Company recognized $53.1 million of revenue from one customer in the USA and Canada segments, which represented 14.5 percent of total consolidated revenue for the period. At March 31, 2020, amounts owing from the customer included in accounts receivable and contract assets was $30.6 million, which represented 5.7 percent of the total balance of accounts receivable and contract assets.

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

- *USA generates revenue from manufacturing natural gas compression and processing 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, operations 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 2020	USA 2019	Rest of World 2020	Rest of World 2019	Canada 2020	Canada 2019	Total 2020	Total 2019
Segment revenue	**$ 229,181**	$ 304,891	**$ 70,275**	$ 101,265	**$ 69,353**	$ 108,398	**$ 368,809**	$ 514,554
Intersegment revenue	**(2,072)**	(12,374)	**-**	(7,462)	**(997)**	(9,816)	**(3,069)**	(29,652)
Revenue	**$ 227,109**	$ 292,517	**$ 70,275**	$ 93,803	**$ 68,356**	$ 98,582	**$ 365,740**	$ 484,902
Revenue – Engineered Systems	**165,616**	239,994	**6,656**	26,580	**53,121**	78,888	**225,393**	345,462
Revenue – Service	**38,261**	35,843	**35,597**	38,724	**12,835**	16,949	**86,693**	91,516
Revenue – Rentals	**23,232**	16,680	**28,022**	28,499	**2,400**	2,745	**53,654**	47,924
Operating income	**$ 37,384**	$ 25,841	**$ 10,213**	$ 1,958	**$ 2,623**	$ 5,148	**$ 50,220**	$ 32,947

As at	USA Mar. 31, 2020	USA Dec. 31, 2019	Rest of World Mar. 31, 2020	Rest of World Dec. 31, 2019	Canada Mar. 31, 2020	Canada Dec. 31, 2019	Total Mar. 31, 2020	Total Dec. 31, 2019
Segment assets	**$ 1,044,968**	$ 948,437	**$ 619,597**	$ 601,512	**$ 529,273**	$ 552,457	**$ 2,193,838**	$ 2,102,406
Goodwill	**172,818**	158,214	**340,730**	327,347	**88,367**	88,367	**601,915**	573,928
Corporate	**-**	-	**-**	-	**-**	-	**(310,950)**	(295,326)
Total segment assets	**$ 1,217,786**	$ 1,106,651	**$ 960,327**	$ 928,859	**$ 617,640**	$ 640,824	**$ 2,484,803**	$ 2,381,008

NOTE 20. SUBSEQUENT EVENTS

Subsequent to March 31, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 2, 2020, to shareholders of record on May 14, 2020. This new dividend amount represents a decrease of 82.6 percent, and was previously communicated in a press release dated March 17, 2020. The decrease in dividend is consistent with Enerflex's long-term strategy of maintaining a strong balance sheet and delivering a sustainable dividend to shareholders. 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.

Subsequent to the end of the quarter, the bill containing the Canada Emergency Wage Subsidy ("CEWS") became a law in Canada. The CEWS program provides a 75 percent wage subsidy to eligible employers for up to 12 weeks, retroactive to March 15, 2020. The Company expects to receive funding from CEWS beginning in the second quarter of 2020, and has not recorded any amounts relating to this program in the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2020. Enerflex continues to monitor for programs in other jurisdictions in which the Company operates.

DIRECTORS AND EXECUTIVES

Enerflex's Executive Management Team:
Left to Right – Andrew Jack, Greg Stewart, David Izett, Marc Rossiter, Sanjay Bishnoi, Phil Pyle, and Patricia Martinez.

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MAUREEN CORMIER JACKSON [6]
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H. STANLEY MARSHALL [2, 3]
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MARC E. ROSSITER
Director
President and Chief Executive Officer
Calgary, AB

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President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

DAVID IZETT
Senior Vice President, General Counsel
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. *Chairman 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

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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.

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