ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 5, 2021

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, 2021 and 2020, the Company's 2020 Annual Report, the Annual Information Form for the year ended December 31, 2020, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

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

FINANCIAL OVERVIEW

($ Canadian thousands, except percentages)	Three months ended March 31, **2021**	2020
Revenue	**$ 203,205**	$ 365,740
Gross margin	**49,548**	93,732
Selling and administrative expenses	**42,527**	43,512
Operating income	**7,021**	50,220
Earnings before finance costs and income taxes ("EBIT")	**6,584**	50,012
Net earnings	**$ 3,003**	$ 37,438
Key Financial Performance Indicators[1]		
Engineered Systems bookings	**$ 98,692**	$ 155,394
Engineered Systems backlog	**169,433**	397,758
Recurring revenue growth[2]	**(6.7)%**	0.7%
Gross margin as a percentage of revenue	**24.4%**	25.6%
EBIT as a percentage of revenue[3]	**7.1%**	13.0%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 27,656**	$ 70,751
Return on capital employed ("ROCE") [3]	**4.3%**	15.4%
Rental horsepower	**767,842**	686,554

[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 2021 OVERVIEW

For the three months ended March 31, 2021:

- Operating income was lower than the prior year, primarily due to reduced Engineered Systems revenue on lower bookings in recent periods, driven by uncertainty around commodity price stability and the ramifications of COVID-19, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020. These impacts were partially offset by the increased contribution from higher margin recurring revenue product offerings.
- SG&A costs of $42.5 million in the first quarter of 2021 were down from $43.5 million in the same period last year. The movement in share price resulted in $5.3 million of share-based compensation in the quarter, compared to $(5.1) million in the first quarter of 2020 – a net increase of $10.4 million period-over-period. Including the effects of share-based compensation, SG&A in the quarter was lower due to decreased compensation expense on reduced headcount, decreased profit share on lower operational results, cost recoveries related to government assistance programs, and lower travel costs, partially offset by higher share-based compensation on the increase of the Company's share price during the first quarter. 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.
- Enerflex was awarded a new 10-year natural gas infrastructure contract during the first quarter of 2021, as previously disclosed in the 2020 Annual Report. The Company has determined that this contract should be accounted for as a finance lease. Enerflex, as a manufacturer lessor, will record selling profit at the commencement date of the contract and then recognize finance lease income over the term of the contract. The manufacturing portion of the transaction is being recorded as part of our Engineered Systems product line and has been included in bookings for the quarter. The finance lease income portion will then be recognized in the Rentals product line over the lease term.
- Engineered Systems bookings totaled $98.7 million, down from $155.4 million in the same period last year. Although first quarter bookings were healthier than cycle lows, bookings activity continued to be impacted by restrained spending within the oil and gas industry. The movement in foreign exchange rates resulted in a decrease of $1.3 million on foreign currency denominated backlog during the first quarter of 2021, compared to a $25.6 million increase in the comparable period – a net decrease of $26.9 million period-over-period.
- Engineered Systems backlog at March 31, 2021 increased compared to at December 31, 2020 due to Engineered Systems bookings outpacing revenue recognized in the period, partially offset by unfavourable foreign exchange impacts.
- The Company continues to manage working capital and has slowed supply chain transactions to align with anticipated market activity. Inventory levels decreased in the quarter and the Company expects to continue to realize 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, Enerflex remains vigilant in assessing outstanding receivables in response to industry conditions and has implemented additional monitoring processes in assessing the creditworthiness of customers.
- For the three months ended March 31, 2021, the Company invested $9.8 million in rental assets to fund the organic expansion of the USA contract compression fleet. At March 31, 2021, the USA contract compression fleet totaled approximately 375,000 horsepower with an average fleet utilization of 82 percent for the quarter. In addition, Enerflex achieved full-time operations and began generating revenue from a previously awarded Build-Own-Operate-Maintain ("BOOM") project in the Middle East.
- Subsequent to March 31, 2021, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 8, 2021, to shareholders of record on May 20, 2021. 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 March 31, 2021, a subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars. This new credit facility is non-recourse to the Company.

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) severance costs associated with restructuring activities and cost reduction activities undertaken in response to the COVID-19 pandemic; 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.

During the second quarter of 2020, the Company added another adjustment related to government grants, most notably the Canada Emergency Wage Subsidy. The amount of subsidies received has been recorded as a reduction in cost of goods sold and selling and administrative expense within the consolidated statements of earnings in accordance with where the associated expense was recognized. Enerflex considers this to be a unique item as these temporary grants relate to the recent COVID-19 pandemic and are not anticipated to be part of the ongoing financial results of the Company.

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

								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

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

ENGINEERED SYSTEMS BOOKINGS AND BACKLOG

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

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

		Three months ended March 31,
($ Canadian thousands)	**2021**	2020
Bookings		
USA	**$ 42,736**	$ 96,107
Rest of World	**41,489**	34,493
Canada	**14,467**	24,794
Total bookings	**$ 98,692**	$ 155,394

($ Canadian thousands)	**March 31, 2021**	December 31, 2020
Backlog		
USA	**$ 90,274**	$ 76,778
Rest of World	**49,223**	16,176
Canada	**29,936**	50,019
Total backlog	**$ 169,433**	$ 142,973

Engineered Systems bookings in the first quarter of 2021 were lower than the comparative period, due to the continuation of restrained spending within the oil and gas industry, as well as negative effects from foreign exchange movement. The Company previously disclosed difficulties facing the industry, including shifting supply and demand dynamics, uncertainty caused by the COVID-19 pandemic, 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.

Backlog at March 31, 2021 was higher than at December 31, 2020 due to Engineered Systems bookings outpacing revenue recognized in the period, partially offset by unfavourable foreign exchange impacts. The movement in exchange rates resulted in a decrease of $1.3 million during the first quarter of 2021 on foreign currency denominated backlog, compared to an increase of $25.6 million in the same period of 2020.

SEGMENTED RESULTS

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

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

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

USA SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2021		2020
Engineered Systems bookings	**$**	**42,736**	$	96,107
Engineered Systems backlog		**90,274**		250,545
Segment revenue	**$**	**84,965**	$	229,181
Intersegment revenue		**(3,019)**		(2,072)
Revenue	**$**	**81,946**	$	227,109
Revenue – Engineered Systems	**$**	**29,240**	$	165,616
Revenue – Service	**$**	**30,114**	$	38,261
Revenue – Rentals	**$**	**22,592**	$	23,232
Operating income	**$**	**366**	$	37,384
EBIT	**$**	**366**	$	37,384
EBITDA	**$**	**10,570**	$	47,298
Segment revenue as a % of total revenue		**40.3%**		62.1%
Recurring revenue growth		**(14.3)%**		17.1%
Operating income as a % of segment revenue		**0.4%**		16.5%
EBIT as a % of segment revenue		**0.4%**		16.5%
EBITDA as a % of segment revenue		**12.9%**		20.8%

Engineered Systems bookings of $42.7 million in the first quarter of 2021 represents a decrease of $53.4 million or 55.5 percent compared to the same period in the prior year. Bookings activity continues to be lower than historical levels, with first quarter bookings averaging $122.1 million over the previous five years. The Company expects bookings levels to remain subdued at least through the first half of 2021.

Revenue decreased by $145.2 million in the first quarter of 2021 compared to the same period of 2020 due largely to lower Engineered Systems and Service revenue. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service was lower due to inclement weather during the quarter, as well as pricing pressure on certain Service offerings and a weaker U.S. dollar. Rentals revenue was consistent with the comparative period, with a larger rental fleet being offset by lower utilization and a weaker U.S. dollar.

Operating income was lower in the first quarter of 2021 compared to the prior year by $37.0 million, primarily due to lower gross margins compared to the prior year. Gross margins decreased due to lower revenue on soft bookings in recent periods, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020.

In the first quarter of 2021, SG&A was consistent with the comparative period, as reduced compensation expenses on lower headcount and salaries, decreased profit share on lower operational results, and lower travel costs were offset by mark-to-market impacts on share-based compensation. 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.

At March 31, 2021, the USA contract compression fleet totaled approximately 375,000 horsepower, compared to approximately 350,000 horsepower at December 31, 2020. The average utilization of the USA contract compression fleet for the three months ended March 31, 2021 was 82 percent, compared to 87 percent in the comparative period in 2020.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2021		2020
Engineered Systems bookings	**$**	**41,489**	$	34,493
Engineered Systems backlog		**49,223**		36,778
Segment revenue	**$**	**70,517**	$	70,275
Intersegment revenue		**(6)**		-
Revenue	**$**	**70,511**	$	70,275
Revenue – Engineered Systems	**$**	**8,442**	$	6,656
Revenue – Service	**$**	**25,911**	$	23,880
Revenue – Rentals	**$**	**36,158**	$	39,739
Operating income	**$**	**4,728**	$	10,213
EBIT	**$**	**4,703**	$	10,256
EBITDA	**$**	**13,587**	$	18,808
Segment revenue as a % of total revenue		**34.7%**		19.2%
Recurring revenue growth		**(2.4)%**		(5.4)%
Operating income as a % of segment revenue		**6.7%**		14.5%
EBIT as a % of segment revenue		**6.7%**		14.6%
EBITDA as a % of segment revenue		**19.3%**		26.8%

[1] During the second quarter of 2020, revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line, including $11,717 previously disclosed during the first quarter of 2020. Please refer to Note 12 of the interim condensed consolidated financial statements for further details.

Enerflex was awarded a new 10-year natural gas infrastructure contract during the first quarter of 2021, as previously disclosed in the 2020 Annual Report. The Company has determined that this contract should be accounted for as a finance lease. Enerflex, as a manufacturer lessor, will record selling profit at the commencement date of the contract and then recognize finance lease income over the term of the contract. The manufacturing portion of the transaction is being recorded as part of our Engineered Systems product line and has been included in bookings for the quarter. The finance lease income portion will then be recognized in the Rentals product line over the lease term.

Rest of World revenue was consistent with the comparative period, with higher Engineered Systems and Service revenue being offset by lower Rentals revenue. Engineered Systems revenue improved on the continued progress made on a power and gas treating plant project, while Service revenues increased on higher activity levels in Australia. Rentals revenue decreased due to lower rates on extended contracts in the Middle East, expiration of certain contracts in Mexico during the prior year, and a weaker U.S. dollar during the period. During the first quarter of 2021, the Company commenced operations on a BOOM project, which will provide full contribution to operating results in future quarters.

Operating income decreased by $5.5 million in the first quarter of 2021 compared to the same period of 2020 due to lower gross margin on reduced revenue and gross margin percentage. For the first quarter of 2021, SG&A costs were consistent with the comparable periods in 2020, with higher share-based compensation on mark-to-market movement being offset by lower travel costs and favourable foreign exchange movement, as well as lower allocation of corporate costs. 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.

CANADA SEGMENT RESULTS

($ Canadian thousands)		Three months ended March 31, 2021		2020
Engineered Systems bookings	$	**14,467**	$	24,794
Engineered Systems backlog		**29,936**		110,435
Segment revenue	$	**51,629**	$	69,353
Intersegment revenue		**(881)**		(997)
Revenue	$	**50,748**	$	68,356
Revenue – Engineered Systems	$	**34,550**	$	53,121
Revenue – Service	$	**14,511**	$	12,835
Revenue – Rentals	$	**1,687**	$	2,400
Operating income	$	**1,927**	$	2,623
EBIT	$	**1,515**	$	2,372
EBITDA	$	**3,499**	$	4,645
Segment revenue as a % of total revenue		**25.0%**		18.7%
Recurring revenue growth		**6.3%**		(22.6)%
Operating income as a % of segment revenue		**3.8%**		3.8%
EBIT as a % of segment revenue		**3.0%**		3.5%
EBITDA as a % of segment revenue		**6.9%**		6.8%

Bookings in the first quarter of 2021 decreased to $14.5 million from $24.8 million a year ago. Bookings in both periods were negatively impacted by restrained spending within the oil and gas industry. While the second half of 2021 is expected to see increased activity levels, the Company expects bookings levels to remain subdued through the first half of 2021.

Revenue decreased by $17.6 million for the first quarter of 2021 compared to the same period in 2020, primarily due to lower Engineered Systems revenue on a lower opening backlog. Service revenue increased on higher parts sales, while Rentals revenue decreased slightly due to certain rental units being returned rather than renewed.

The Canadian segment recorded an operating income of $1.9 million for the first quarter of 2021 compared to $2.6 million in the same period of 2020. Operating decreased due to lower gross margin on reduced revenue, partially offset by improved gross margin percentage and lower SG&A in the quarter. SG&A decreased due to lower compensation and cost recoveries related to government assistance programs, partially offset by higher share-based compensation on mark-to-market movement.

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 765,000 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, including providing operation and maintenance as part of a BOOM agreement.

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, 2021

($ Canadian thousands)	**Total**	**Engineered Systems**	**Service**	**Rentals**
Revenue	**$ 203,205**	**$ 72,232**	**$ 70,536**	**$ 60,437**
Cost of goods sold:				
Operating expenses	**137,075**	**61,637**	**53,587**	**21,851**
Depreciation and amortization	**16,582**	**2,072**	**998**	**13,512**
Gross margin	**$ 49,548**	**$ 8,523**	**$ 15,951**	**$ 25,074**

Three months ended March 31, 2020

($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 365,740	$ 225,393	$ 74,976	$ 65,371
Cost of goods sold:				
Operating expenses	255,995	173,333	58,052	24,610
Depreciation and amortization	16,013	2,110	824	13,079
Gross margin	$ 93,732	$ 49,950	$ 16,100	$ 27,682

INCOME TAXES

Income tax expense (recovery) totaled $(1.4) million or (88.6) percent of earnings before tax for the first quarter of 2021, compared to $6.6 million or 15.0 percent of earnings before tax in the same period of 2020. Income tax expense for the first quarter of 2021 was lower primarily due to reduced earnings before tax and a lower Canadian statutory rate, partially offset by the exchange rate effects on tax basis and the effect of earnings taxed in foreign jurisdictions. During the fourth quarter of 2020, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 9.0 percent for 2020, and 8.0 percent for 2021 and thereafter.

OUTLOOK

Enerflex's financial performance derives from strategic decisions to: 1) diversify its manufactured product offerings; 2) increase the recurring revenues from long-term BOOM, rental, and service contracts; and 3) develop a geographically diversified business. Enerflex's recent focus has been on stabilizing cash flows to maintain a strong balance sheet through a volatile commodity price environment. Priorities have included significant investments in recurring revenue projects in the USA and ROW segments. While a tempered growth trajectory in global oil and natural gas demand will impact demand for Enerflex's manufactured products sales and services, these investments are expected to assist in stabilizing the Company's cash flow throughout this downturn and going forward.

Engineered Systems sales remain dependent on global capital investment in oil and natural gas, and operators have reduced investment levels across the energy industry. However, in recent months, commodity prices and drilling activity in North America have strengthened, which may precede increased activity within these regions. In addition, an "Energy Transition" towards less carbon-intensive energy sources may result in new opportunities for the Company in all of its operating regions.

North America continues to present the area of greatest uncertainty for Enerflex, though recent improvement in natural gas benchmark pricing is helpful for sentiment in the industry and appears to be translating to increased activity levels and rig count. The Company has yet to see this improved sentiment translate to bookings; however, bidding activity appears to be picking up and there has been some recent success seen in non-traditional applications, including electrified compression and lower carbon-intensity projects. Engineered Systems revenues in the Canada and USA regions are likely to continue to experience pressure through the first half of 2021, however the Company is seeing indications that bookings activity may pick up later in the year. The outlook for our Service and Rentals product lines, which are dependent on operational expenditures by our customers, appears to have stabilized in the near-term.

The ROW segment is less dependent on Engineered Systems to drive operating results, as long-term contracts for Service and Rentals make cash flows more predictable than the North American regions. In the Middle East/Africa ("MEA") region, we have seen increasing interest for new assets and have secured contract extensions for certain existing assets. This includes a new 10-year natural gas infrastructure contract awarded during this quarter, as well as long-term extensions to two existing contracts finalized at the end of 2020. In addition, future periods will see the contribution from a 10-year BOOM project in MEA that was recently commissioned. Latin America will benefit from the completion of certain BOOM projects in Brazil and Argentina, the sale of a 13 MW power and gas treating plant to reduce flare gas in Colombia, and renewed rental assets in Mexico.

While the Company's financial performance in recent years has benefitted from strong execution on Engineered Systems project work and significant growth in recurring revenues, any continuation of market weakness in 2021 and beyond 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.

The Company will continue to preserve the strength of our balance sheet and maximize free cash flow through disciplined capital spending in 2021, with investments prioritizing higher-margin, less-cyclical businesses with attractive returns. 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.

In the short term, Enerflex remains focused on providing a safe working environment for all employees, while 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, particularly as an energy transition fuel to support decarbonization. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

For Engineered Systems we expect lower activity levels experienced throughout 2020 to continue for the first half of 2021, or until there is a meaningful increase in U.S upstream activity. Recurring revenue segments, both in terms of after-market service and contract compression demand, have proven stable in terms of overall performance. While U.S. oil and gas production has been impacted by global events, the Company believes that the increased presence of larger, more patient producers in basins such as the Permian is supportive for long-term value creation. Recent improvements in commodity prices and drilling activity may be a positive indicator for investment in the region; however, producers in the USA segment will continue to be influenced by swings in the commodity price environment, along with the other risk variables cited above.

Rest of World

In the Rest of World segment, the Company expects to continue generating strong recurring revenue in both the MEA and Latin America regions through its existing rental fleet and new BOOM projects, with earnings and horsepower both set to increase with a 10-year BOOM project in MEA that began generating revenue in early 2021, and a new 10-year natural gas infrastructure contract signed in the quarter that is expected to commence operations in late 2021.

The Company continues to see demand for large-scale BOOM and ITK projects in the Middle East, including for natural gas-fired power generation. Engineering and manufacturing are well progressed for a new long-term BOOM contract awarded in the first quarter of this year and this project is expected to commence income generating operations at the end of 2021. The Company continues to explore new markets and opportunities within this region, focusing on projects containing products engineered and manufactured by Enerflex, that provide long-term, stable cash flows.

In Latin America, the Company continues progressing its power and gas treating plant to reduce flare gas in Colombia, which is expected to be delivered on time and on budget during the second half of 2021. Enerflex remains cautiously optimistic about the outlook in Latin America as many countries have indicated a renewed desire to develop oil and natural gas in recent periods. With investment opportunities becoming available, the global energy industry is returning to various prolific plays within the region, although reduced exploration budgets and a greater aversion to risk may temper this return. The Company is well positioned to provide products and services throughout the region as activity takes place in its key markets, particularly Argentina, Brazil, Colombia, and Mexico.

In Australia, demand for Enerflex service and maintenance support remains solid. Liquified natural gas ("LNG") supply contracts are providing a stable demand for gas from producers. 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 has seen a slowdown in response to the current economic environment; however, multiple new opportunities have been approved by customers, which will support activity in this region throughout 2021. Demand for parts and associated service activities remain modest in Asia, with some recent uptick in requests and orders.

Canada

2021 started off a bit slower than expected across all business lines with the industry still recovering from the impact of COVID-19. The sustained increase in rig count, as well as steady oil prices, are positive indicators for the Canadian industry. Enquiry rates on traditional gas compression and gas processing applications have seen a marked uptick in the first quarter of 2021, and we expect that this interest will result in increased orders in mid- to late-2021. Our focus on supporting the market with greenhouse gas reduction technology and infrastructure development is attracting firm support from a range of current and new customers. Our existing internal IP and engagement with niche technology providers in this space positions us well to capitalize on developments in the carbon emissions reduction space. Government regulations requiring producers to only generate electric power for their own use or for export of power to the grid have negatively impacted the economics for some independent power providers, thereby slowing our growth in this space. The Company expects that spending in the Canadian energy sector will remain constrained for the first half of the year. Increased market confidence is expected to result in an improved second half of 2021 for our business.

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

Across the Company, Enerflex looks to leverage its diversified international positioning to compete for projects in growing natural gas markets, and to offer integrated solutions spanning all phases of a project's life-cycle from engineering and design through to after-market service, with a focus on recurring revenue from Service and 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 local demand and an export-focused 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 strategic 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 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, including four projects that recently commenced operations. Enerflex underscores the importance of BOOM and other long-term leases in this segment, as multi-year contracts for rental and maintenance of equipment align with the emphasis on growing recurring revenue streams and customers in this segment have proven to be receptive to these solutions. The Company has also seen increased interest in electric power solutions in many of the regions in the ROW segment, and looks to leverage expertise developed across the organization to meet this demand. Elsewhere in the segment, Enerflex has expanded the capability of the Company's Australian Service line in response to activity levels, which are projected to remain high on the strength of increasing demand for natural gas, contributing to recurring revenue.

Enerflex has aimed its efforts in Canada on leveraging its capabilities and expertise to expand the Company's market share in the natural gas sector, particularly in liquids-rich reservoirs, and to support the development of natural gas resources for a future LNG industry. In addition, the Company has looked to build on its successes in the electric power market given sustained low natural gas prices and the resulting increase in demand for natural gas-fired power generation. 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.

	Three months ended March 31,	
($ Canadian thousands)	**2021**	2020
EBITDA		
EBIT	**$ 6,584**	$ 50,012
Depreciation and amortization	**21,072**	20,739
EBITDA	**$ 27,656**	$ 70,751
Recurring Revenue		
Service [1]	**$ 70,536**	$ 74,976
Rentals[1]	**60,437**	65,371
Total Recurring Revenue	**$ 130,973**	$ 140,347
ROCE		
Trailing 12-month EBIT	**$ 74,624**	$ 250,568
Capital Employed – beginning of period		
Net debt[2]	**$ 294,036**	$ 334,232
Shareholders' equity	**1,396,695**	1,342,787
	$ 1,690,731	$ 1,677,019
Capital Employed – end of period		
Net debt[2]	**$ 251,503**	$ 402,717
Shareholders' equity	**1,377,396**	1,458,760
	$ 1,628,899	$ 1,861,477
Average Capital Employed[3]	**$ 1,717,619**	$ 1,621,876
Return on Capital Employed	**4.3%**	15.4%

[1] *During the second quarter of 2020, revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line, including $11,717 previously disclosed during the first quarter of 2020. Please refer to Note 12 of the interim condensed consolidated financial statements for further details.*

[2] *Net debt is defined as short- and long-term debt less cash and cash equivalents.*

[3] *Based on a trailing four-quarter average.*

FREE CASH FLOW

($ Canadian thousands)		Three months ended March 31, 2021		2020
Cash provided by operating activities	**$**	**59,951**	$	9,333
Net change in non-cash working capital and other		**34,692**		(44,232)
	$	**25,259**	$	53,565
Add-back:				
Net finance costs		**4,992**		5,969
Current income tax expense		**3,109**		6,336
Proceeds on the disposal of property, plant and equipment		**-**		86
Proceeds on the disposal of rental equipment		**528**		2,663
Deduct:				
Net interest paid		**(1,362)**		(1,483)
Net cash taxes paid		**(752)**		(6,160)
Additions to property, plant and equipment		**(1,319)**		(4,432)
Additions to rental equipment:				
Growth		**(9,836)**		(60,873)
Maintenance		**(1,493)**		(1,787)
Dividends paid		**(1,793)**		(10,312)
Free cash flow	**$**	**17,333**	$	(16,428)

For the three months ended March 31, 2021, free cash flow increased compared to the same period in 2020, primarily due to reduced growth capital expenditures on the rental fleet and lower property, plant and equipment additions, as well as lower cash taxes and dividends paid. This was partially offset by lower cash provided by operating activities before non-cash working capital. 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, 2021 compared to December 31, 2020:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(35.2)	The decrease in current assets at March 31, 2021 is due to lower accounts receivable, contract assets, and inventories. Accounts receivable decreased due to the collection of trade receivables and lower overall activity levels. Contract assets decreased due to lower activity levels, while inventory decreased due to the consumption of major equipment inventory into projects.
Rental equipment	$(12.1)	The decrease in rental equipment is due to depreciation and the weakening of the U.S. dollar at March 31, 2021 that impacts the revaluation of U.S. dollar denominated rental equipment. This was partially offset by additions to rental equipment, primarily on the contract compression fleet in the USA.
Current liabilities	$(18.1)	The decrease in current liabilities at March 31, 2021 is due to lower accounts payable and deferred revenues on lower overall activity levels.
Long-term debt	$(27.6)	The decrease in long-term debt is due to repayments made on the Bank Facility and the weakening of the U.S. dollar at March 31, 2021.
Shareholders' equity before non-controlling interest	$(19.3)	Shareholders' equity before non-controlling interest decreased primarily due to $20.9 million unrealized loss on translation of foreign operations and dividends of $1.8 million partially offset by $3.0 million net earnings.

LIQUIDITY

The Company expects that continued cash flows from operations in 2021, 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, 2021, the Company held cash and cash equivalents of $110.6 million and had cash drawings of $59.4 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $637.6 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 1.37:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

		Three months ended March 31,		
($ Canadian thousands)		**2021**		2020
Cash, beginning of period	**$**	**95,676**	$	96,255
Cash provided by (used in):				
Operating activities		**59,951**		9,333
Investing activities		**(10,679)**		(63,735)
Financing activities		**(33,745)**		29,853
Exchange rate changes on foreign currency cash		**(561)**		(35)
Cash, end of period	**$**	**110,642**	$	71,671

Operating Activities

For the three months ended March 31, 2021, cash provided by operating activities improved over the same period in 2020, with positive movements in non-cash working capital partially offset by lower net earnings. 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, 2021, cash used in investing activities decreased due to lower capital expenditures on the rental fleet and property, plant and equipment, partially offset by lower proceeds on disposal of rental equipment.

Financing Activities

For the three months ended March 31, 2021, cash used in financing activities increased primarily due to repayment of long-term debt, compared to draws made on long-term debt in the same period in 2020, partially offset by lower dividends paid.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)		Revenue		Net earnings		Earnings per share – basic		Earnings per share – diluted
March 31, 2021	**$**	**203,205**	**$**	**3,003**	**$**	**0.03**	**$**	**0.03**
December 31, 2020		298,837		32,668		0.36		0.36
September 30, 2020		265,037		10,736		0.12		0.12
June 30, 2020		287,438		7,415		0.08		0.08
March 31, 2020		365,740		37,438		0.42		0.42
December 31, 2019		474,362		31,436		0.35		0.35
September 30, 2019		544,284		63,074		0.71		0.70
June 30, 2019		541,874		40,649		0.45		0.45
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

CAPITAL RESOURCES

On April 30, 2021, 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 2021, the Company declared a quarterly dividend of $0.02 per share. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

At March 31, 2021, the Company had drawn $59.4 million against the Bank Facility (December 31, 2020 - $84.4 million). The weighted average interest rate on the Bank Facility at March 31, 2021 was 1.8 percent (December 31, 2020 – 2.3 percent).

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

($ Canadian thousands)		**March 31, 2021**		December 31, 2020
Drawings on Bank Facility	**$**	**59,449**	$	84,369
Senior Notes due June 22, 2021		**40,000**		40,000
Senior Notes due December 15, 2024		**147,038**		148,686
Senior Notes due December 15, 2027		**118,025**		119,124
Deferred transaction costs		**(2,367)**		(2,467)
	$	**362,145**	$	389,712
Current portion of long-term debt	**$**	**40,000**	$	40,000
Non-current portion of long-term debt		**322,145**		349,712
	$	**362,145**	$	389,712

At March 31, 2021, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $246.5 million, and $118.0 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the three months ended March 31, 2021 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, 2021, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 8, 2021, to shareholders of record on May 20, 2021. 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 March 31, 2021, a subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars. This new credit facility is non-recourse to the Company.

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. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. While the Company believes that there is a reasonable basis for the forward-looking information and statements included in this MD&A, as a result of such known and unknown risks, uncertainties and other factors, actual results, performance, or achievements could differ materially from those expressed in, or implied by, these statements, and readers are cautioned not to unduly rely upon forward-looking information.

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, 2021**		December 31, 2020
Assets				
Current assets				
Cash and cash equivalents	**$**	**110,642**	$	95,676
Accounts receivable (Note 2)		**187,753**		213,375
Contract assets (Note 2)		**50,466**		66,722
Inventories (Note 3)		**205,029**		212,251
Current portion of finance leases receivable (Note 6)		**4,955**		3,047
Income taxes receivable		**22,823**		23,718
Derivative financial instruments (Note 15)		**46**		491
Other current assets		**7,380**		9,047
Total current assets		**589,094**		624,327
Property, plant and equipment (Note 4)		**99,908**		102,636
Rental equipment (Note 4)		**625,743**		637,814
Lease right-of-use assets (Note 5)		**51,226**		54,184
Finance leases receivable (Note 6)		**58,856**		61,227
Deferred tax assets (Note 11)		**49,731**		48,216
Other assets		**54,003**		58,600
Intangible assets		**14,932**		16,544
Goodwill (Note 7)		**568,162**		576,028
Total assets	**$**	**2,111,655**	$	2,179,576
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**169,964**	$	182,152
Warranty provision		**10,029**		10,549
Income taxes payable		**5,309**		4,387
Deferred revenues (Note 8)		**29,799**		35,409
Current portion of long-term debt (Note 9)		**40,000**		40,000
Current portion of lease liabilities (Note 10)		**14,190**		14,693
Derivative financial instruments (Note 15)		**148**		371
Total current liabilities		**269,439**		287,561
Long-term debt (Note 9)		**322,145**		349,712
Lease liabilities (Note 10)		**44,829**		47,233
Deferred tax liabilities (Note 11)		**83,353**		87,408
Other liabilities		**14,493**		10,967
Total liabilities	**$**	**734,259**	$	782,881
Shareholders' equity				
Share capital	**$**	**375,524**	$	375,524
Contributed surplus		**657,272**		656,832
Retained earnings		**302,249**		301,040
Accumulated other comprehensive income		**42,351**		63,299
Total shareholders' equity		**1,377,396**		1,396,695
Total liabilities and shareholders' equity	**$**	**2,111,655**	$	2,179,576

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

($ Canadian thousands, except per share amounts)	Three months ended March 31, 2021	2020
Revenue (Note 12)	**$ 203,205**	$ 365,740
Cost of goods sold	**153,657**	272,008
Gross margin	**49,548**	93,732
Selling and administrative expenses	**42,527**	43,512
Operating income	**7,021**	50,220
Gain (loss) on disposal of property, plant and equipment (Note 4)	**(25)**	43
Equity loss from associate and joint venture	**(412)**	(251)
Earnings before finance costs and income taxes	**6,584**	50,012
Net finance costs (Note 14)	**4,992**	5,969
Earnings before income taxes	**1,592**	44,043
Income taxes (Note 11)	**(1,411)**	6,605
Net earnings	**$ 3,003**	$ 37,438
Net earnings attributable to:		
Controlling interest	**$ 3,003**	$ 37,269
Non-controlling interest	**-**	169
	$ 3,003	$ 37,438
Earnings per share – basic	**$ 0.03**	$ 0.42
Earnings per share – diluted	**$ 0.03**	$ 0.42
Weighted average number of shares – basic	**89,678,845**	89,678,845
Weighted average number of shares – diluted	**89,762,110**	89,678,845

See accompanying Notes to the interim condensed consolidated financial statements.

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

($ Canadian thousands)	Three months ended March 31, **2021**	2020
Net earnings	**$ 3,003**	$ 37,438
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	**72**	(68)
Gain (loss) on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**(206)**	60
Unrealized gain (loss) on translation of foreign denominated debt	**675**	(8,829)
Unrealized gain (loss) on translation of financial statements of foreign operations	**(21,489)**	97,218
Other comprehensive income (loss)	**$ (20,948)**	$ 88,381
Total comprehensive income (loss)	**$ (17,945)**	$ 125,819
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ (20,948)**	$ 88,666
Non-controlling interest	**-**	(285)
	$ (20,948)	$ 88,381

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, 2021		2020
Operating Activities				
Net earnings	**$**	**3,003**	$	37,438
Items not requiring cash and cash equivalents:				
Depreciation and amortization		**21,072**		20,739
Equity (earnings) loss from associate and joint venture		**412**		251
Deferred income taxes (Note 11)		**(4,520)**		269
Share-based compensation expense (recovery) (Note 13)		**5,267**		(5,089)
(Gain) loss on disposal of property, plant and equipment (Note 4)		**25**		(43)
		25,259		53,565
Net change in non-cash working capital and other (Note 16)		**34,692**		(44,232)
Cash provided by operating activities	**$**	**59,951**	$	9,333
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$**	**(1,319)**	$	(4,432)
Rental equipment (Note 4)		**(11,329)**		(62,660)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)		**-**		86
Rental equipment (Note 4)		**528**		2,663
Change in other assets		**1,441**		608
Cash used in investing activities	**$**	**(10,679)**	$	(63,735)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 9)	**$**	**(27,823)**	$	43,672
Lease liability principal repayment (Note 10)		**(3,336)**		(2,633)
Lease interest (Note 10)		**(793)**		(874)
Dividends		**(1,793)**		(10,312)
Cash provided by (used in) financing activities	**$**	**(33,745)**	$	29,853
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$**	**(561)**	$	(35)
Increase (decrease) in cash and cash equivalents		**14,966**		(24,584)
Cash and cash equivalents, beginning of period		**95,676**		96,255
Cash and cash equivalents, end of period	**$**	**110,642**	$	71,671

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, 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
At January 1, 2021	$ 375,524	$ 656,832	$ 301,040	$ 63,270	$ 29	$ 63,299	$ 1,396,695	$ -	$ 1,396,695
Net earnings	-	-	3,003	-	-	-	3,003	-	3,003
Other comprehensive income (loss)	-	-	-	(20,814)	(134)	(20,948)	(20,948)	-	(20,948)
Effect of stock option plans	-	440	-	-	-	-	440	-	440
Dividends	-	-	(1,794)	-	-	-	(1,794)	-	(1,794)
At March 31, 2021	**$ 375,524**	**$ 657,272**	**$ 302,249**	**$ 42,456**	**$ (105)**	**$ 42,351**	**$ 1,377,396**	**$ -**	**$ 1,377,396**

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 5, 2021.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three months ended March 31, 2021 and 2020 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, 2020. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars rounded to the nearest thousand, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost basis with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year ended December 31, 2020.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

	March 31, 2021	December 31, 2020
Trade receivables	**$ 172,417**	$ 194,777
Less: allowance for doubtful accounts	**(11,325)**	(11,439)
Trade receivables, net	**$ 161,092**	$ 183,338
Other receivables	**26,661**	30,037
Total accounts receivable	**$ 187,753**	$ 213,375

Aging of trade receivables:

	March 31, 2021	December 31, 2020
Current to 90 days	**$ 125,036**	$ 152,285
Over 90 days	**47,381**	42,492
	$ 172,417	$ 194,777

Movement in allowance for doubtful accounts:

	March 31, 2021	December 31, 2020
Balance, January 1	**$ 11,439**	$ 2,144
Impairment provision additions on receivables	**82**	21,072
Amounts settled and derecognized during the period	**(67)**	(11,071)
Currency translation effects	**(129)**	(706)
Closing balance	**$ 11,325**	$ 11,439

Movement in contract assets:

	March 31, 2021	December 31, 2020
Balance, January 1	**$ 66,722**	$ 130,392
Unbilled revenue recognized	**60,878**	238,300
Amounts billed	**(76,331)**	(281,145)
Amounts transferred to other assets	**-**	(26,625)
Currency translation effects	**(803)**	5,800
Closing balance	**$ 50,466**	$ 66,722

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

NOTE 3. INVENTORIES

Inventories consisted of the following:

	March 31, 2021	December 31, 2020
Direct materials	**$ 106,289**	$ 119,342
Repair and distribution parts	**53,532**	52,125
Work-in-process	**29,686**	25,185
Equipment	**15,522**	15,599
Total inventories	**$ 205,029**	$ 212,251

The amount of inventory and overhead costs recognized as an expense and included in cost of goods for the three months ended March 31, 2021 was $153.7 million (March 31, 2020 – $272.0 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statements of earnings and included in cost of goods sold for March 31, 2021 was $1.6 million (March 31, 2020 – $1.4 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three months ended March 31, 2021, the Company added $1.3 million in property, plant and equipment (March 31, 2020 – $4.4 million) and $11.3 million in rental equipment (March 31, 2020 – $62.7 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the three months ended March 31, 2021 was a decrease of $1.2 million on property, plant and equipment and a decrease of $9.7 million on rental equipment (March 31, 2020 – increase of $8.8 million and $54.0 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended March 31, 2021 was $15.7 million (March 31, 2020 – $15.1 million), of which $14.8 million was included in cost of goods sold (March 31, 2020 – $14.3 million) and $0.9 million was included in selling and administrative expenses (March 31, 2020 – $0.8 million).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three months ended March 31, 2021, the Company added $0.7 million in lease right-of-use assets (March 31, 2020 – $1.9 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, 2021 was a decrease of $0.3 million (March 31, 2020 – increase of $1.4 million).

Depreciation of lease right-of-use assets included in earnings for the three months ended March 31, 2021 was $3.4 million (March 31, 2020 – $3.4 million), of which $1.7 million was included in cost of goods sold (March 31, 2020 – $1.8 million) and $1.7 million was included in selling and administrative expenses (March 31, 2020 – $1.6 million).

NOTE 6. FINANCE LEASES RECEIVABLE

The Company has entered into finance lease arrangements for certain of its rental assets. The initial terms of the leases entered into range from three to 10 years.

The value of the net investment is comprised of the following:

	Minimum lease payments				Present value of minimum lease payments			
		March 31, 2021		December 31, 2020		**March 31, 2021**		December 31, 2020
Less than one year	**$**	**4,955**	$	3,047	**$**	**4,686**	$	2,928
Between one and five years		**41,509**		42,129		**33,289**		34,020
Later than five years		**42,295**		45,445		**25,836**		27,326
	$	**88,759**	$	90,621	**$**	**63,811**	$	64,274
Less: unearned finance income		**(24,948)**		(26,347)		**-**		-
	$	**63,811**	$	64,274	**$**	**63,811**	$	64,274

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At March 31, 2021 the average interest rate was 7.5 percent per annum (December 31, 2020 – 7.5 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 7. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		March 31, 2021		December 31, 2020
Balance, January 1	**$**	**576,028**	$	573,928
Currency translation effects		**(7,866)**		2,100
	$	**568,162**	$	576,028

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at December 31, 2020, the result of which was no impairment of goodwill. At March 31, 2021, the Company determined that there were no further indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

NOTE 8. DEFERRED REVENUES

	March 31, 2021	December 31, 2020
Balance, January 1	**$ 35,409**	$ 89,409
Cash received in advance of revenue recognition	**26,185**	247,100
Revenue subsequently recognized	**(31,486)**	(306,334)
Currency translation effects	**(309)**	5,234
Closing balance	**$ 29,799**	$ 35,409

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, 2021	December 31, 2020
Drawings on Bank Facility	**$ 59,449**	$ 84,369
Notes due June 22, 2021	**40,000**	40,000
Notes due December 15, 2024	**147,038**	148,686
Notes due December 15, 2027	**118,025**	119,124
Deferred transaction costs	**(2,367)**	(2,467)
	$ 362,145	$ 389,712
Current portion of long-term debt	**$ 40,000**	$ 40,000
Non-current portion of long-term debt	**322,145**	349,712
	$ 362,145	$ 389,712

The weighted average interest rate on the Bank Facility for the three months ended March 31, 2021 was 1.8 percent (December 31, 2020 – 2.3 percent). At March 31, 2021 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $246.5 million, and $118.0 million thereafter.

NOTE 10. LEASE LIABILITIES

	March 31, 2021	December 31, 2020
Balance, January 1	**$ 61,926**	$ 67,000
Additions	**761**	8,065
Lease interest	**793**	3,371
Payments made against lease liabilities	**(4,129)**	(16,141)
Currency translation effects and other	**(332)**	(369)
Closing balance	**$ 59,019**	$ 61,926
Current portion of lease liabilities	**$ 14,190**	$ 14,693
Non-current portion of lease liabilities	**44,829**	47,233
	$ 59,019	$ 61,926

In addition to the lease payments made above, during the three months ended March 31, 2021, the Company paid $0.1 million (March 31, 2020 – $0.3 million) relating to short-term and low-value leases which were expensed as incurred. During the three months ended March 31, 2021, the Company also paid $0.5 million (March 31, 2020 – $0.4 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.2 million (March 31, 2020 – $0.2 million) was included in cost of goods sold and $0.3 million (March 31, 2020 – $0.2 million) was included in selling and administrative expenses. Interest expense on lease liabilities was $0.8 million for the three months ended March 31, 2021 (March 31, 2020 – $0.9 million). Total cash outflow for leases for the three months ended March 31, 2021 was $4.6 million (March 31, 2020 – $4.2 million).

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

	March 31, 2021
2021	**$ 11,562**
2022	**13,107**
2023	**9,068**
2024	**6,279**
2025	**6,141**
Thereafter	**25,675**
	$ 71,832
Less:	
Imputed interest	**12,702**
Short-term leases	**71**
Low-value leases	**40**
	$ 59,019

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,		2021		2020
Current income taxes	$	3,109	$	6,336
Deferred income taxes		(4,520)		269
	$	(1,411)	$	6,605

(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,		2021		2020
Earnings before income taxes	$	1,592	$	44,043
Canadian statutory rate		23.6%		25.1%
Expected income tax provision	$	376	$	11,055
Add (deduct):				
Exchange rate effects on tax basis		(1,485)		(3,996)
Earnings taxed in foreign jurisdictions		(604)		(1,038)
Amounts not deductible for tax purposes		147		585
Impact of accounting for associates and joint ventures		97		21
Other		58		(22)
Income tax expense from continuing operations	$	(1,411)	$	6,605

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2020 – 15.0 percent) and provincial income tax rates of 8.6 percent (2020 – 10.1 percent). During the fourth quarter of 2020, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 9.0 percent for 2020 and 8.0 percent for 2021 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,		2021		2020
Engineered Systems	$	**72,232**	$	225,393
Service[1]		**70,536**		74,976
Rentals[1]		**60,437**		65,371
Total revenue	$	**203,205**	$	365,740

[1] During the second quarter of 2020, revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line, including $11,717 previously disclosed during the first quarter of 2020. This new classification creates better alignment with management's internal metrics, as the operations and maintenance of these facilities are considered costs and revenue associated with the rental of the facilities.

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

Three months ended March 31,		2021		2020
United States	$	**81,387**	$	175,491
Canada		**49,248**		66,246
Oman		**17,384**		16,080
Australia		**17,048**		17,507
Bahrain		**7,088**		11,389
Argentina		**6,400**		6,534
Mexico		**6,294**		9,896
Colombia		**5,029**		2,379
Brazil		**3,487**		2,305
Bolivia		**1,726**		1,166
Peru		**1,424**		-
Nigeria		**1,271**		51,913
Other		**5,419**		4,834
Total revenue	$	**203,205**	$	365,740

The following table outlines the Company's unsatisfied performance obligations, by product line, as at March 31, 2021:

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	148,093	$	21,340	$	-	$	169,433
Service		29,109		13,692		42,725		85,526
Rentals		173,919		120,412		454,556		748,887
	$	**351,121**	**$**	**155,444**	**$**	**497,281**	**$**	**1,003,846**

NOTE 13. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense (Recovery)

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

Three months ended March 31,		2021		2020
Equity settled share-based payments	$	440	$	467
Cash settled share-based payments		4,827		(5,556)
Share-based compensation expense (recovery)	$	5,267	$	(5,089)

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 2021. 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, 2021 included in current liabilities was $3.6 million (December 31, 2020 – $2.1 million) and in other long term liabilities was $12.6 million (December 31, 2020 - $9.1 million).

(b) Equity-Settled Share-Based Payments

			March 31, 2021			December 31, 2020
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Options outstanding, beginning of period	4,057,142	$	12.78	3,565,521	$	14.67
Granted	-		-	839,478		5.51
Forfeited	-		-	(121,547)		15.20
Expired	-		-	(226,310)		14.33
Options outstanding, end of period	4,057,142	$	12.78	4,057,142	$	12.78
Options exercisable, end of period	1,810,577	$	14.73	1,810,577	$	14.73

No options were exercised for the three months ended March 31, 2021 (March 31, 2020 – nil).

The following table summarizes options outstanding and exercisable at March 31, 2021:

	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
$5.51 – $12.05	1,322,439	4.54	$	7.77	482,961	1.36	$	11.69
$12.06 – $14.75	1,199,061	4.40		13.32	464,964	3.41		13.30
$14.76 – $20.75	1,535,642	3.37		16.68	862,652	2.89		17.21
Total	4,057,142	4.06	$	12.78	1,810,577	2.61	$	14.73

(c) Cash-Settled Share-Based Payments

During the three months ended March 31, 2021, the value of director's compensation and executive bonuses elected to be received in DSUs totalled $0.7 million (March 31, 2020 - $1.2 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2021	1,147,182	$	11.01
Granted	76,448		8.54
In lieu of dividends	3,139		6.85
DSUs outstanding, March 31, 2021	**1,226,769**	**$**	**10.85**

NOTE 14. FINANCE COSTS AND INCOME

Three months ended March 31,		**2021**		2020
Finance Costs				
Short and long-term borrowings	**$**	**4,394**	$	5,275
Interest on lease liability		**793**		874
Total finance costs	**$**	**5,187**	$	6,149
Finance Income				
Bank interest income	**$**	**180**	$	157
Income from finance leases		**15**		23
Total finance income	**$**	**195**	$	180
Net finance costs	**$**	**4,992**	$	5,969

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at March 31, 2021 were designated in the same manner as they were at December 31, 2020. Accordingly, with the exception of the long-term debt Notes and certain long-term receivables, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at March 31, 2021 was $305.1 million and $318.9 million, respectively (December 31, 2020 – $307.8 million and $325.2 million, respectively). The fair value of these Notes at March 31, 2021 was determined on a discounted cash flow basis with a weighted average discount rate of 3.8 percent (December 31, 2020 – 3.4 percent).

The Company holds preferred shares that were initially recorded at fair value and subsequently measured at amortized cost and recognized as long-term receivables in Other assets. The carrying value and estimated fair value of the preferred shares at March 31, 2021 was $21.7 million and $25.1 million, respectively (December 31, 2020 – $22.0 million and $25.7 million, respectively).

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at March 31, 2021:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**7,313**	April 2021 – January 2022
Sales contracts	USD	**(2,403)**	April 2021 – July 2021
Purchase contracts	EUR	**56**	May 2021
U.S. Dollar Denominated Contracts			
Purchase contracts	EUR	**420**	April 2021

At March 31, 2021, the fair value of derivative financial instruments classified as financial assets was less than $0.1 million, and as financial liabilities was $0.1 million (December 31, 2020 – $0.5 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 $43.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for March 31, 2021. 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 (loss) before income taxes	$ **170**	$ **(13)**	$ **11**
Financial instruments held in foreign operations			
Other comprehensive income	$ **9,906**	$ **894**	$ **191**
Financial instruments held in Canadian operations			
Earnings before income taxes	$ **(9,513)**	$ **-**	$ **-**

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, 2021 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 $0.6 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, 2021, the Company held cash and cash equivalents of $110.6 million and had drawn $59.4 million against the Bank Facility, leaving it with access to $637.6 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 1.37:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at March 31, 2021:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 133	$ 15	$ -	$ 148
Accounts payable and accrued liabilities	169,964	-	-	169,964
Long-term debt - Bank Facility	-	-	59,449	59,449
Long-term debt - Notes	40,000	-	265,063	305,063
Other long-term liabilities	-	-	14,493	14,493

The Company expects that cash flows from operations in 2021, 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,	**2021**	2020
Net change in non-cash working capital and other		
Accounts receivable	**$ 25,622**	$ 54,414
Contract assets	**16,256**	19,911
Inventories	**7,222**	(37,162)
Deferred revenue	**(5,610)**	(15,632)
Accounts payable and accrued liabilities, provisions, and income taxes payable	**(11,786)**	(42,420)
Foreign currency and other	**2,988**	(23,343)
	$ 34,692	$ (44,232)

Cash interest and taxes paid and received during the period:

Three months ended March 31,	**2021**	2020
Interest paid – short- and long-term borrowings	**$ 627**	$ 725
Interest paid – lease liabilities	**793**	874
Total interest paid	**$ 1,420**	$ 1,599
Interest received	**58**	116
Taxes paid	**900**	6,394
Taxes received	**148**	234

Changes in liabilities arising from financing activities during the period:

Three months ended March 31,		2021		2020
Long-term debt, opening balance[1]	$	389,712	$	430,487
Changes from financing cash flows		(24,759)		15,285
The effect of changes in foreign exchange rates		(2,909)		28,536
Amortization of deferred transaction costs		256		229
Other changes		(155)		(149)
Long-term debt, closing balance[1]	$	362,145	$	474,388

[1] Long-term debt for the three months ended March 31, 2021 includes the current portion of long-term debt, which is classified as a current liability in the interim condensed consolidated statement of financial position.

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At March 31, 2021, the Company had outstanding letters of credit of $28.0 million (December 31, 2020 - $47.5 million).

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

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

2021	$	75,560
2022		1,347
2023		213

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, 2021, the Company had no individual customers which accounted for more than 10 percent of its revenue. 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, refrigeration, processing, and electric power equipment, including custom and standard compression packages and modular natural gas processing equipment and refrigeration systems, in addition to generating revenue from mechanical services and parts, and maintenance solutions, and contract compression rentals;*
- *Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing build-own-operate-maintain and integrated turnkey projects; and*
- *Canada generates revenue from manufacturing both custom and standard natural gas compression, processing, and electric power equipment, as well as providing after-market mechanical service, parts, and compression and power generation rentals.*

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

Three months ended March 31,	USA		Rest of World		Canada		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
Segment revenue	**$ 84,965**	$ 229,181	**$ 70,517**	$ 70,275	**$ 51,629**	$ 69,353	**$ 207,111**	$ 368,809
Intersegment revenue	**(3,019)**	(2,072)	**(6)**	-	**(881)**	(997)	**(3,906)**	(3,069)
Revenue	**$ 81,946**	$ 227,109	**$ 70,511**	$ 70,275	**$ 50,748**	$ 68,356	**$ 203,205**	$ 365,740
Revenue – Engineered Systems	**29,240**	165,616	**8,442**	6,656	**34,550**	53,121	**72,232**	225,393
Revenue – Service[1]	**30,114**	38,261	**25,911**	23,880	**14,511**	12,835	**70,536**	74,976
Revenue – Rentals[1]	**22,592**	23,232	**36,158**	39,739	**1,687**	2,400	**60,437**	65,371
Operating income[2]	**$ 366**	$ 37,384	**$ 4,728**	$ 10,213	**$ 1,927**	$ 2,623	**$ 7,021**	$ 50,220

[1] During the second quarter of 2020, revenues from the operation and maintenance of BOOM contracts have been reclassified from the Service to Rentals product line, including $11,717 previously disclosed during the first quarter of 2020. Please refer to Note 12 for further details.

[2] During the three months ended March 31, 2021, the Company recognized $4.1 million of government grants (March 31, 2020 – nil). The subsidies received have been recorded as a reduction in cost of goods sold and selling and administrative expense within the interim condensed consolidated statement of earnings in accordance with where the associated expense was recognized.

	USA		Rest of World		Canada		Total	
	Mar. 31 2021	Dec. 31 2020	**Mar. 31 2021**	Dec. 31 2020	**Mar. 31 2021**	Dec. 31 2020	**Mar. 31 2021**	Dec. 31 2020
Segment assets	**$ 872,879**	$ 895,022	**$ 598,683**	$ 610,597	**$ 524,432**	$ 525,510	**$ 1,995,994**	$ 2,031,129
Goodwill	**153,182**	155,094	**326,613**	332,567	**88,367**	88,367	**568,162**	576,028
Corporate	**-**	-	**-**	-	**-**	-	**(452,501)**	(427,581)
Total segment assets	**$ 1,026,061**	$ 1,050,116	**$ 925,296**	$ 943,164	**$ 612,799**	$ 613,877	**$ 2,111,655**	$ 2,179,576

NOTE 20. SUBSEQUENT EVENTS

Subsequent to March 31, 2021, Enerflex declared a quarterly dividend of $0.02 per share, payable on July 8, 2021, to shareholders of record on May 20, 2021. 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 March 31, 2021, a subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars. This new credit facility is non-recourse to the Company.

BOARD OF DIRECTORS

FERNANDO ASSING[4]
Director
Houston, TX

ROBERT S. BOSWELL[1, 4]
Director
Denver, CO

MAUREEN CORMIER JACKSON[6]
Director
Calgary, AB

W. BYRON DUNN[2, 4]
Director
Dallas, TX

H. STANLEY MARSHALL[2, 3]
Director
Paradise, NL

KEVIN J. REINHART[5]
Director
Calgary, AB

MARC E. ROSSITER
Director
President and Chief Executive Officer
Calgary, AB

STEPHEN J. SAVIDANT[7]
Chairman
Calgary, AB

JUAN CARLOS VILLEGAS[4]
Director
Lo Barnechea, RM, Chile

MICHAEL A. WEILL[6]
Director
Houston, TX

HELEN J. WESLEY[2, 6]
Director
Tampa Bay, FL

1. Chair of the Nominating and Corporate Governance Committee
2. Member of the Nominating and Corporate Governance Committee
3. Chair of the Human Resources and Compensation Committee
4. Member of the Human Resources and Compensation Committee
5. Chair of the Audit Committee
6. Member of the Audit Committee
7. Chair of the Board

EXECUTIVES

SANJAY BISHNOI
Senior Vice President, Chief Financial Officer
Calgary, AB

DAVID IZETT
Senior Vice President, General Counsel
Calgary, AB

PATRICIA MARTINEZ
Chief Energy Transition Officer and President, Latin America
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

HELMUTH WITULSKI
President, Canada
Calgary, AB

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

AST Trust Company (Canada)
Calgary, AB, Canada and Toronto, ON, Canada

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Email: inquiries@astfinancial.com
Web: astfinancial.com/ca-en

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

INVESTOR RELATIONS

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

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