MANAGEMENT'S DISCUSSION AND ANALYSIS

February 24, 2021

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company") should be read in conjunction with the audited consolidated financial statements for years ended December 31, 2020 and 2019, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

The MD&A focuses on information and key statistics from the audited 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.

THE COMPANY

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

Headquartered in Calgary, Alberta, Canada, the Company has approximately 2,000 employees worldwide. Enerflex, its subsidiaries, interests in associates and joint operations, operate in Canada, the United States of America ("USA"), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, New Zealand, Indonesia, Malaysia, and Thailand. Through Enerflex's owned natural gas infrastructure, the Company transforms over 2.8 billion cubic feet of natural gas per day, globally.

Enerflex has fabrication and workshop facilities in Calgary, Alberta; Houston, Texas; and Brisbane, Queensland; that supply custom fabricated and standard equipment to customers worldwide. Enerflex is one of the leading suppliers of natural gas compression within the rental market in Canada, the USA, Latin America, and the Middle East, with a global rental fleet of approximately 715,000 HP. The Company is a highly-qualified service provider with industry-certified mechanics and technicians strategically situated across a network of 53 service locations in Canada, the USA, Latin America, the Middle East, and Asia Pacific.

Enerflex operates three business segments: USA, Rest of World ("ROW"), and Canada. Each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. A summary of the business segments and product lines is included below:

USA

- The Engineered Systems product line consists of custom and standard compression packages for reciprocating and screw compressor applications from Enerflex's manufacturing facility located in Houston, Texas. In addition, the Company engineers, designs, manufactures, constructs, and installs modular natural gas processing equipment, refrigeration systems, and electric power solutions. Retrofit provides re-engineering, re-configuration, and re-packaging of compressors for various field applications.
- The Service product line provides mechanical services and parts, as well as maintenance solutions to the oil and natural gas industry in the USA. The Company is an INNIO Waukesha Platinum Power Packager, providing worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex packages CAT engines and parts. Enerflex's USA service branches are located in Colorado, Louisiana, New Mexico, North Dakota, Oklahoma, Pennsylvania, Texas, West Virginia, and Wyoming.
- The Rentals product line provides natural gas compression equipment rentals to oil and natural gas customers in the USA, primarily operating in the Permian and SCOOP/STACK formations utilizing a fleet of low- to high-horsepower packages. These

compressor packages are typically used in wellhead, gas-lift and natural gas gathering systems, and other applications primarily in connection with natural gas and oil production. In addition, power generation rental solutions are also available in the USA region. The Rentals product line in the USA operates out of Enerflex's Houston, Texas facility.

REST OF WORLD

- The Rest of World segment deploys products typically fabricated by Enerflex's Engineered Systems division in Houston, Texas.
- The Latin America region, with locations in Argentina, Bolivia, Brazil, Colombia, and Mexico, provides Engineered Systems products, including integrated turnkey natural gas compression, processing, and electric power solutions, with local construction and installation capabilities. The Service product line in the region focuses on after-market services, parts, and components, as well as operations, maintenance, and overhaul services. The Rentals product line provides natural gas compression and processing equipment for rent to oil and gas customers in the region. Enerflex has a number of operating Build-Own-Operate-Maintain ("BOOM") facilities of varying size and scope in this region, providing customers with alternate solutions to meet their natural gas compression, processing, and electric power needs.
- The Middle East/Africa ("MEA") region, through its operations in Bahrain, Oman, Kuwait, and the UAE, provides engineering, design, procurement, and construction services for compression, process, and power generation equipment, as well as rentals, after-market service, parts, and operations and maintenance services for gas compression and processing facilities in the region. The Rentals product line provides natural gas compression and processing equipment for rent to oil and gas customers in the region. Enerflex has a number of BOOM facilities of varying size and scope in this region providing customers with alternate solutions to meet their natural gas compression, processing, and electric power needs.
- The Australia region is headquartered in Brisbane, Queensland with additional locations in Queensland, Western Australia, and New Zealand providing after-market services, equipment supply, parts supply, and general asset management.
- The Asia region, with locations and operations in Indonesia, Malaysia, and Thailand, provides Engineered Systems, as well as after-market services and parts through the Company's local operations.
- Through its location in the United Kingdom, the Company provides customized compression, processing, and high-end refrigeration solutions in the Europe region.
- As a Platinum Power Packager of INNIO's Waukesha engines, the Company provides factory-direct access to Waukesha engines and parts in its Rest of World regions. This region also packages CAT engines and parts.

CANADA

- The Engineered Systems product line is comprised of compression, process, and electric power solutions. Enerflex provides custom and standard compression packages for reciprocating and screw compressor applications. It also engineers, designs, manufactures, constructs, and installs modular processing equipment and waste gas systems for natural gas facilities. Enerflex provides integrated turnkey ("ITK") power generation, gas compression, and processing facilities. Retrofit solutions provide re-engineering, re-configuration, and re-packaging of compressors for various field applications. Enerflex has a manufacturing facility in Calgary, Alberta and retrofit facilities in Calgary, Grand Prairie, and Red Deer, Alberta.
- The Service product line provides after-market mechanical service and parts distribution. As an INNIO Waukesha Platinum Power Packager, the Company has worldwide factory-direct access to Waukesha engines and parts. In addition, Enerflex is also the authorized distributor and service provider of INNIO's Jenbacher gas engines and parts in Canada. The Company also packages CAT and MAN engines and parts. The Service product line operates out of service branches located in Alberta, British Columbia, Ontario, and Quebec.
- The Rentals product line provides reciprocating and rotary screw natural gas compression packages ranging from 50 horsepower to 2,000 horsepower, as well as electric power equipment for rent to customers.

ENGINEERED SYSTEMS

The Engineered Systems product line is comprised of three product offerings: compression, process, and electric power. Enerflex is able to combine one or more of these product offerings into an integrated turnkey solution, including civil works, piping and structural fabrication, and electrical, instrumentation, controls, and automation, as well as installation and commissioning. Enerflex's ITK offering allows customers to simplify their supply chain, eliminate interface risk, and reduce the concept-to-commissioning cycle time of major projects.

Compression packages are offered from 20 horsepower to 10,000 plus horsepower and ranging from low specification field compressors to high specification process compressors for onshore and offshore applications. The Company also provides retrofit solutions which includes re-engineering, reconfiguration, and repackaging of compressors for various field applications. Processing equipment includes

dehydration and liquids recovery, refrigeration and cryogenic processing, oil and natural gas separators, and amine sweetening to remove H_2S or CO_2. For electric power, a typical power generation unit is comprised of a natural gas reciprocating engine driver, a generator, and control devices.

Facilities dedicated to the Engineered Systems product line occupy approximately 250,000 square feet of manufacturing space in Canada and approximately 315,000 square feet of manufacturing space in the USA. In addition, the Company has approximately 40,000 square feet of shop space in Australia that is devoted to retrofit, service, and overhaul activities.

SERVICE

Enerflex's Service division provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services to our global customers. The product line operates through an extensive network of branch offices and generally provides its services at the customer's wellsite location using trained technicians and mechanics. Enerflex is a Global Platinum partner under INNIO's Waukesha Power Packager program, which allows the Company to package and service Waukesha engines for its customers worldwide. Additionally, the Company is an authorized distributor for INNIO's Jenbacher gas engines and parts in Canada. Enerflex is also the authorized distributor for Altronic, a leading manufacturer of electric ignition and control systems, in all of its operating regions. Enerflex's after-market service and support business includes distribution and remanufacturing facilities, with 53 outlets situated in active natural gas producing areas, over 400 service vehicles, hundreds of skilled mechanics, and a sizable inventory of original equipment manufacturer parts from key manufacturers.

RENTALS

The Rentals product line includes a variety of rental and leasing alternatives for natural gas compression, processing, and electric power equipment. The rental fleet is deployed across Canada, the USA, Argentina, Brazil, Colombia, Mexico, Bahrain, and Oman, and provides comprehensive contract operations services to customers in each of those regions. In addition to Enerflex's asset fleet, this product line provides customers with trained personnel, equipment, tools, materials, and supplies to meet their natural gas compression, processing, and power generation needs, as well as designing, sourcing, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services. The Rentals product line encompasses a fleet of natural gas compressors totalling approximately 715,000 HP on rent or available for rent globally.

FINANCIAL OVERVIEW

($ Canadian thousands, except percentages)	Three months ended December 31, 2020	2019	Twelve months ended December 31, 2020	2019
Revenue	$ 298,837	$ 474,362	$ 1,217,052	$ 2,045,422
Gross margin	74,954	97,442	298,179	429,085
Selling and administrative expenses	43,942	49,070	182,167	197,177
Operating income	31,012	48,372	116,012	231,908
Earnings before finance costs and income taxes ("EBIT")	30,873	48,813	118,052	233,902
Net earnings	$ 32,668	$ 31,436	$ 88,257	$ 152,128
Key Financial Performance Indicators[1]				
Engineered Systems bookings	$ 52,730	$ 94,509	$ 273,782	$ 508,916
Engineered Systems backlog	142,973	467,757	142,973	467,757
Recurring revenue growth[2,3]	31.2%	6.3%	3.6%	14.5%
Gross margin as a percentage of revenue	25.1%	20.5%	24.5%	21.0%
EBIT as a percentage of revenue[4]	9.7%	11.4%	9.7%	11.4%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	$ 52,503	$ 70,234	$ 203,317	$ 320,461
Return on capital employed ("ROCE")[4]	6.6%	15.8%	6.6%	15.8%
Rental horsepower	713,929	674,153	713,929	674,153

[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] During the quarter, the Company finalized the extension of two BOOM contracts, which were previously scheduled to end in 2021 and 2024, for an additional 10 years. Under the new agreements, the Company will continue providing, operating, and maintaining the existing equipment for approximately 10 years, after which ownership of the equipment will transfer to the customer. As such, the Company has recorded these contracts as a finance leases in fourth quarter results. Upon commencement of the new leases, the Company recognized Rentals revenue, based on the fair value of the underlying assets, in the consolidated statements of earnings, which is included in the calculation of recurring revenue. The amount of this revenue reflects the amount that the Company would otherwise recognize on a sale of those assets. Without the effect of this transaction, recurring revenue would have decreased by 10.2% and 7.1% for the three months and year ended December 31, 2020.

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

FOURTH QUARTER AND TWELVE MONTHS OF 2020 OVERVIEW

For the three months ended December 31, 2020:

- Operating income was lower than the prior year, primarily due to reduced Engineered Systems revenue on lower bookings throughout 2020, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were booked during the second half of 2018 and were largely completed by the third quarter of 2020. This was partially offset by the recognition of margin on the conversion of BOOM contracts to 10-year finance leases in the quarter, as well as improved gross margin percentage on increased contributions from recurring revenue product lines and lower SG&A costs. At December 31, 2020, the Company finalized the extension of two contracts with a customer, which were previously recognized as BOOM projects, for an additional 10 years. These contracts were previously scheduled to end in 2021 and 2024. Under the new agreements, the Company will continue providing, operating, and maintaining the existing equipment for approximately 10 years, after which ownership of the equipment will transfer to the customer. Upon commencement of the new leases, the Company recognized Rentals revenue, based on the fair value of the underlying assets, and the associated cost of goods sold, determined to be the net book value of those assets, in the consolidated statements of earnings. The amount of this revenue reflects the amount that the Company would otherwise recognize on a sale of those assets.
- SG&A costs of $43.9 million in the fourth quarter of 2020 were down from $49.1 million in the same period last year. SG&A in the quarter was lower due to decreased compensation expense on reduced headcount, cost recoveries related to government assistance programs, and lower travel costs, partially offset by higher share-based compensation on mark-to-market movement. In the quarter, the Company continued efforts to reduce travel, marketing, and non-critical IT expenditures as part of previously communicated cost-saving measures. The Company continues to monitor costs in response to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic, and remains focused on controlling costs where possible.
- Engineered Systems booking activity rebounded from the lows seen in the third quarter of 2020, but continued to be impacted by restrained spending within the oil and gas industry due to uncertainty around commodity price stability and the ramifications of COVID-19. Bookings totaled $52.7 million, down from $94.5 million in the same period last year. Bookings in the fourth quarter include $77.1 million of new project work, which was offset by $19.8 million of previous bookings in the Canada segment that were de-booked. The movement in exchange rates resulted in a decrease of $4.5 million on foreign currency denominated backlog during the fourth quarter of 2020, compared to a $6.8 million decrease in the comparable period – a net increase of $2.3 million period-over-period. The de-booking largely related to a project initially recorded in a prior year that the customer deferred. The initial deposit for the project was allocated to other projects that the Company had been awarded with the same customer.
- 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, the collectability of accounts receivable becomes increasingly pertinent in periods of slower industry activity. The Company's large geographic footprint and diversification of products and services assists in mitigating counterparty credit risk that can result from customer concentration. Enerflex remains vigilant in assessing outstanding receivables and has implemented additional monitoring processes in assessing the creditworthiness of customers.
- For the three months ended December 31, 2020, the Company invested $9.8 million in rental assets to fund both the organic expansion of the USA contract compression fleet and continued construction of a previously announced BOOM project in MEA. At December 31, 2020, the USA contract compression fleet totaled over 350,000 horsepower with an average fleet utilization of 82 percent for the quarter. In addition, Enerflex completed the construction of a previously awarded BOOM project in MEA, however, COVID-19-related travel restrictions and limitations on worksite access delayed the date on which this project achieved full-time operations and began generating revenue. Despite the challenges faced, this project began generating revenue in January 2021.
- Subsequent to December 31, 2020, Enerflex was awarded a new 10-year natural gas infrastructure contract representing roughly $35 million in growth capital expenditure for 2021.
- Subsequent to December 31, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on April 1, 2021, to shareholders of record on March 11, 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.

For the twelve months ended December 31, 2020:

- Operating income decreased over the prior year, due largely to lower Engineered Systems revenue and increased bad debt provisions in the USA and ROW segments, partially offset by the impact of the finance lease transaction, as described above, as well as improved gross margin percentage and lower overall SG&A costs. Both the current period and the comparative period also include the impact of higher estimated costs to complete certain projects; however, the effect on the current year was lower than the comparative period. In addition, the comparative period also includes a write-down of equipment. Gross margin percentage is higher as a result of increased contributions from recurring revenue product lines and the proportionately higher contribution of the previously mentioned high margin Engineered Systems projects that were largely completed by the third quarter of 2020.
- SG&A costs of $182.2 million in the twelve months of 2020 were down from $197.2 million in the same period last year. The decrease in SG&A is driven by lower compensation expense on lower headcount and profit share, as well as mark-to-market impacts on share-based compensation and recoveries related to government assistance programs, partially offset by increased bad debt provisions, driven by expected credit losses in the USA and ROW segments.
- Engineered Systems booking activity was lower in the twelve months of 2020 versus the prior year period due to restrained spending within the oil and gas industry, as described above. The movement in exchange rates resulted in an increase of $7.5 million on foreign currency denominated backlog during the twelve months of 2020, compared to a $35.0 million decrease in the comparable period – a $42.5 million period-over-period increase.
- Engineered Systems backlog at December 31, 2020 decreased compared to at December 31, 2019 due to Engineered Systems revenue recognized in the period outpacing bookings, partially offset by favourable foreign exchange impacts.

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 and the JobKeeper Payment program in Australia. The amount of subsidies received has been recorded as a reduction in cost of goods sold and selling and administrative expense within the consolidated statement 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 December 31, 2020
($ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	$ 30,873	$ 5,916	$ 18,496	$ 6,461
Severance costs in COGS and SG&A	1,974	465	591	918
Government grants in COGS and SG&A	(6,752)	-	(208)	(6,544)
Share-based compensation	5,114	2,588	1,708	818
Depreciation and amortization	21,630	10,317	9,105	2,208
Adjusted EBITDA	$ 52,839	$ 19,286	$ 29,692	$ 3,861

($ Canadian thousands)	Three months ended December 31, 2019 Total	USA	ROW	Canada
Reported EBIT	$ 48,813	$ 61,065	$ (18,180)	$ 5,928
Write-off of rental equipment in COGS	14,489	-	14,489	-
Write-off of facility and equipment in COGS	614	-	614	-
Restructuring costs in COGS and SG&A	869	-	-	869
Share-based compensation	2,826	1,344	814	668
Depreciation and amortization	21,421	8,751	9,940	2,730
Adjusted EBITDA	$ 89,032	$ 71,160	$ 7,677	$ 10,195

($ Canadian thousands)	Twelve months ended December 31, 2020 Total	USA	ROW	Canada
Reported EBIT	$ 118,052	$ 56,496	$ 40,542	$ 21,014
Severance costs in COGS and SG&A	5,718	1,437	725	3,556
Government grants in COGS and SG&A	(19,569)	-	(2,246)	(17,323)
Share-based compensation	1,816	1,035	727	54
Depreciation and amortization	85,265	41,312	35,107	8,846
Adjusted EBITDA	$ 191,282	$ 100,280	$ 74,855	$ 16,147

($ Canadian thousands)	Twelve months ended December 31, 2019 Total	USA	ROW	Canada
Reported EBIT	$ 233,902	$ 193,825	$ 537	$ 39,540
Write-off of rental equipment in COGS	14,489	-	14,489	-
Write-off of facility and equipment in COGS	2,654	-	2,654	-
Restructuring costs in COGS and SG&A	869	-	-	869
Gain on disposal of idle facilities	(434)	-	-	(434)
Share-based compensation	7,749	3,838	1,888	2,023
Depreciation and amortization	86,559	33,381	42,846	10,332
Adjusted EBITDA	$ 345,788	$ 231,044	$ 62,414	$ 52,330

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 December 31,		Twelve months ended December 31,	
($ Canadian thousands)	2020	2019	2020	2019
Bookings				
USA	$ 28,835	$ 72,261	$ 146,902	$ 340,552
Rest of World	5,386	1,955	47,720	20,179
Canada	18,509	20,293	79,160	148,185
Total bookings	$ 52,730	$ 94,509	$ 273,782	$ 508,916

($ Canadian thousands)	December 31, 2020	December 31, 2019
Backlog		
USA	$ 76,778	$ 320,054
Rest of World	16,176	8,941
Canada	50,019	138,762
Total backlog	$ 142,973	$ 467,757

Engineered Systems bookings in the fourth quarter and twelve months of 2020 were lower than the comparative period, as bookings continue to be tempered by restrained spending within the oil and gas industry due to recent commodity price weakness and the uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. Bookings in the fourth quarter include $77.1 million of new project work, which was offset by $19.8 million of previous bookings in the Canada segment that were de-booked and $4.5 million of negative foreign exchange impacts. The de-booking largely related to a project initially recorded in a prior year that the customer deferred. The initial deposit for the project was allocated to other projects that the Company had been awarded with the same customer. Without the effect of this de-recognition, bookings in Canada would have improved over the comparative quarter, and the fourth quarter of 2020 would represent the strongest bookings quarter in the region since the second quarter of 2019.

The Company expects bookings levels to remain subdued in the short-term and has implemented certain cost saving measures in response to unfavourable market conditions.

Backlog at December 31, 2020 was lower than at December 31, 2019 due to Engineered Systems revenue recognized outpacing bookings, partially offset by favourable foreign exchange impacts on foreign currency denominated backlog. The movement in exchange rates resulted in a decrease of $4.5 million during the fourth quarter and an increase of $7.5 million during the twelve months of 2020 on foreign currency denominated backlog, compared to a decrease of $6.8 million and $35.0 million in the same periods of 2019.

SEGMENTED RESULTS

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

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

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

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2020	2019	Twelve months ended December 31, 2020	2019
Engineered Systems bookings	$ 28,835	$ 72,261	$ 146,902	$ 340,552
Engineered Systems backlog	76,778	320,054	76,778	320,054
Segment revenue	$ 110,675	$ 290,170	$ 649,133	$ 1,243,760
Intersegment revenue	(9,841)	(13,385)	(16,847)	(48,091)
Revenue	$ 100,834	$ 276,785	$ 632,286	$ 1,195,669
Revenue – Engineered Systems	$ 42,201	$ 207,835	$ 390,178	$ 947,451
Revenue – Service	$ 35,474	$ 48,127	$ 150,939	$ 172,130
Revenue – Rentals	$ 23,159	$ 20,823	$ 91,169	$ 76,088
Operating income	$ 5,924	$ 61,045	$ 56,504	$ 194,010
EBIT	$ 5,916	$ 61,065	$ 56,496	$ 193,825
EBITDA	$ 16,233	$ 69,816	$ 97,808	$ 227,206
Segment revenue as a % of total revenue	33.7%	58.3%	52.0%	58.5%
Recurring revenue growth	(15.0)%	21.5%	(2.5)%	25.7%
Operating income as a % of segment revenue	5.9%	22.1%	8.9%	16.2%
EBIT as a % of segment revenue	5.9%	22.1%	8.9%	16.2%
EBITDA as a % of segment revenue	16.1%	25.2%	15.5%	19.0%

Engineered Systems bookings of $28.8 million in the fourth quarter of 2020 represents a decrease of $43.4 million or 60.1 percent compared to the same period in the prior year. Bookings activity continues to be lower than historical levels due to several factors, including a severe downturn in oil prices caused by shifting supply and demand dynamics, as well as market uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. The Company expects bookings levels to remain subdued through the first half of 2021 and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $176.0 million and $563.4 million in the fourth quarter and twelve months of 2020 compared to the same periods of 2019 due largely to lower Engineered Systems and Service revenue, partially offset by higher Rentals revenue. Engineered Systems revenue decreased due to lower opening backlog on reduced bookings in recent periods, while Service was lower due to travel restrictions related to COVID-19 and pricing pressure on certain Service offerings. Rentals revenue increased due to the organic growth of the contract compression fleet, which grew by 15.4 percent on a horsepower basis in the last year.

Operating income was lower in the fourth quarter and twelve months of 2020 compared to the prior year by $55.1 million and $137.5 million, primarily due to lower gross margins. Gross margins decreased due to lower revenue on soft bookings throughout 2020, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were booked during the second half of 2018 that were largely completed by the third quarter of 2020. Decreased margins were partially offset by lower SG&A costs in the fourth quarter of 2020 and twelve months of 2020. In the fourth quarter, SG&A was down due to reduced compensation expenses on lower headcount and salaries, while for the year ended December 31, 2020, SG&A decreased due to lower overall compensation costs, driven by mark-to-market impacts on share-based compensation and decreased profit share on lower operational results, as well as lower travel costs, partially offset by bad debt provisions taken in the second quarter of 2020. 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 December 31, 2020, the USA contract compression fleet totaled over 350,000 horsepower, compared to approximately 310,000 horsepower at December 31, 2019. The average utilization of the USA contract compression fleet for the three and twelve months ended December 31, 2020 was 82 percent and 83 percent, respectively, compared to 87 percent in both comparative periods in 2019.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended December 31, 2020	2019	Twelve months ended December 31, 2020	2019
Engineered Systems bookings	$ 5,386	$ 1,955	$ 47,720	$ 20,179
Engineered Systems backlog	16,176	8,941	16,176	8,941
Segment revenue	$ 144,367	$ 73,909	$ 353,210	$ 354,680
Intersegment revenue	(124)	(107)	(199)	(7,846)
Revenue	$ 144,243	$ 73,802	$ 353,011	$ 346,834
Revenue – Engineered Systems	$ 17,179	$ 5,652	$ 40,485	$ 76,813
Revenue – Service[1]	$ 24,320	$ 28,769	$ 96,092	$ 111,357
Revenue – Rentals[1]	$ 102,744	$ 39,381	$ 216,434	$ 158,664
Operating income	$ 18,495	$ (18,208)	$ 40,488	$ 511
EBIT	$ 18,496	$ (18,180)	$ 40,542	$ 537
EBITDA	$ 27,601	$ (8,240)	$ 75,649	$ 43,383
Segment revenue as a % of total revenue	48.3%	15.6%	29.0%	17.0%
Recurring revenue growth[2]	86.4%	0.3%	15.7%	6.5%
Operating income as a % of segment revenue	12.8%	(24.7)%	11.5%	0.1%
EBIT as a % of segment revenue	12.8%	(24.6)%	11.5%	0.2%
EBITDA as a % of segment revenue	19.1%	(11.2)%	21.4%	12.5%

[1] 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. For the three and twelve months ended December 31, 2019, $11,464 and $43,594 have been reclassified. Please refer to Note 23 of the audited consolidated financial statements for further details.

[2] Recurring revenue growth includes revenue recognized on the commencement of two finance leases in the fourth quarter of 2020. The amount of this revenue reflects the amount that the Company would otherwise recognize on a sale of those assets. Without the effect of this transaction, recurring revenue in the Rest of World segment would have decreased by 7.4% and 7.9% for the three months and year ended December 31, 2020.

Rest of World revenue increased by $70.4 million and $6.2 million in the fourth quarter and twelve months of 2020 compared to the same period in the prior year on higher Rentals revenue primarily due to recognition of finance leases in the fourth quarter. At December 31, 2020, the Company finalized the extension of two contracts with a customer, which were previously recognized as BOOM projects, for an additional 10 years. These contracts were previously scheduled to end in 2021 and 2024. Under the new agreements, the Company will continue providing, operating, and maintaining the existing equipment for approximately 10 years, after which ownership of the equipment will transfer to the customer. Upon commencement of the new leases, the Company derecognized rental assets and recognized Rentals revenue, based on the fair value of the underlying assets, in the consolidated statements of earnings. The Rest of World also had increased revenues on contributions from BOOM projects in Latin America, as well as improved Engineered Systems revenue in the fourth quarter on continued progress made on a power and gas treating plant project. This was partially offset by decreased Service revenue in both the fourth quarter and the twelve months ended December 31, 2020, as well as lower Engineered Systems revenue for the year due to timing of project work, as bookings from recent periods began contributing to operating results in the second half of 2020, while Engineered Systems revenue in the prior year reflected continued progress made on projects included in the opening backlog. Service revenues decreased due to reduced activity levels and a reduction in parts and equipment sales.

Operating income increased by $36.7 million and $40.0 million in the fourth quarter and twelve months of 2020 compared to the same periods of 2019. This improvement is due to the recognition of margin on commencement of finance leases in the period, as well as the non-recurrence of impairments recognized on certain rental assets in the prior year. For the fourth quarter and twelve months of 2020, SG&A costs were consistent with the comparable periods in 2019. In the fourth quarter, higher share-based compensation on mark-to-market movement and increased profit share expense was offset by reduced travel costs and lower allocation of corporate costs, while for the twelve months of 2020, bad debt provisions taken in the third quarter were offset by lower share-based compensation on mark-to-market movement, reduced travel costs, cost recoveries related to government assistance programs, and 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 December 31, 2020	2019	Twelve months ended December 31, 2020	2019
Engineered Systems bookings	$ 18,509	$ 20,293	$ 79,160	$ 148,185
Engineered Systems backlog	50,019	138,762	50,019	138,762
Segment revenue	$ 56,780	$ 126,454	$ 247,390	$ 518,042
Intersegment revenue	(3,020)	(2,679)	(15,635)	(15,123)
Revenue	$ 53,760	$ 123,775	$ 231,755	$ 502,919
Revenue – Engineered Systems	$ 36,681	$ 106,313	$ 167,903	$ 424,239
Revenue – Service	$ 15,403	$ 15,271	$ 56,238	$ 67,505
Revenue – Rentals	$ 1,676	$ 2,191	$ 7,614	$ 11,175
Operating income	$ 6,593	$ 5,535	$ 19,020	$ 37,387
EBIT	$ 6,461	$ 5,928	$ 21,014	$ 39,540
EBITDA	$ 8,669	$ 8,658	$ 29,860	$ 49,872
Segment revenue as a % of total revenue	18.0%	26.1%	19.0%	24.6%
Recurring revenue growth	(2.2)%	(15.6)%	(18.8)%	12.0%
Operating income as a % of segment revenue	12.3%	4.5%	8.2%	7.4%
EBIT as a % of segment revenue	12.0%	4.8%	9.1%	7.9%
EBITDA as a % of segment revenue	16.1%	7.0%	12.9%	9.9%

Bookings in the fourth quarter of 2020 decreased to $18.5 million from $20.3 million a year ago. Bookings in both periods were negatively impacted by restrained spending within the oil and gas industry due to shifting supply and demand dynamics and the uncertainty caused by the COVID-19 pandemic. These factors are in addition to previously disclosed difficulties facing the industry, including producers having made a general shift to funding growth capital expenditures from free cash flow, constrained access to capital for producers, uncertainty around global trade dynamics, and political uncertainty. In addition, the Company de-recognized $19.8 million of previous bookings in the Canada segment in the fourth quarter of 2020. These bookings largely related to a project initially recorded in a prior year that the customer deferred. The initial deposit for the project was allocated to other projects that the Company had been awarded with the same customer. Without the effect of this de-recognition, bookings in Canada would have improved over the comparative quarter, and the fourth quarter of 2020 would represent the strongest bookings quarter in the region since the second quarter of 2019. 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 and has implemented certain cost saving measures in response to unfavourable market conditions.

Revenue decreased by $70.0 million and $271.2 million for the fourth quarter and twelve months of 2020 compared to the same periods in 2019, primarily due to lower Engineered Systems revenue on a lower opening backlog and reduced bookings throughout 2020. For the twelve months of 2020, Service and Rentals revenues were down due to lower equipment sales and reseller activity, Service branches performing more light-duty work as opposed to overhauls, and the return of certain rental units.

The Canadian segment recorded an operating income of $6.6 million and $19.0 million for the fourth quarter and twelve months of 2020 compared to $5.5 million and $37.4 million in the same period of 2019. Operating income in the fourth quarter increased due to lower SG&A, driven by reduced compensation expenses on lower headcount and cost recoveries related to government assistance programs, partially offset by lower gross margin on reduced revenue. For the twelve months of 2020, operating income decreased due to lower gross margin on reduced revenue and increased bad debt provisions, partially offset by reduced compensation expenses on lower headcount, lower share-based compensation on mark-to-market impacts, decreased profit share on lower operational results, and cost recoveries related to government assistance programs.

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 approximately 715,000 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 December 31, 2020
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 298,837	$ 96,061	$ 75,197	$ 127,579
Cost of goods sold:				
Operating expenses	206,915	74,214	58,423	74,278
Depreciation and amortization	16,968	2,089	1,016	13,863
Gross margin	$ 74,954	$ 19,758	$ 15,758	$ 39,438

				Three months ended December 31, 2019
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 474,362	$ 319,800	$ 92,167	$ 62,395
Cost of goods sold:				
Operating expenses	360,445	240,276	69,974	50,195
Depreciation and amortization	16,475	1,828	1,115	13,532
Gross margin	$ 97,442	$ 77,696	$ 21,078	$ (1,332)[1]

				Twelve months ended December 31, 2020
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 1,217,052	$ 598,566	$ 303,269	$ 315,217
Cost of goods sold:				
Operating expenses	852,524	477,282	234,666	140,576
Depreciation and amortization	66,349	8,469	4,016	53,864
Gross margin	$ 298,179	$ 112,815	$ 64,587	$ 120,777

[1] In the fourth quarter and twelve months of 2019, Enerflex recognized $24.4 million and $26.4 million of write-offs and impairment charges on rental equipment. Of the total value recognized, $14.5 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.

($ Canadian thousands)		Total		Engineered Systems		Service		Rentals
								Twelve months ended December 31, 2019
Revenue	$	2,045,422	$	1,448,503	$	350,992	$	245,927
Cost of goods sold:								
Operating expenses		1,550,036		1,159,712		269,994		120,330
Depreciation and amortization		66,301		6,681		3,453		56,167
Gross margin	$	429,085	$	282,110	$	77,545	$	69,430[1]

[1] In the fourth quarter and twelve months of 2019, Enerflex recognized $24.4 million and $26.4 million of write-offs and impairment charges on rental equipment. Of the total value recognized, $14.5 million relates to the write-off of specialized rental assets acquired as part of a business combination in 2014 that we have now determined cannot be redeployed and have never been utilized or generated revenue for Enerflex.

INCOME TAXES

Income tax expense (recovery) totaled $(6.6) million or (25.6) percent and $7.3 million or 7.6 percent of earnings before tax for the fourth quarter and twelve months of 2020, compared to $11.9 million or 27.5 percent and $63.2 million or 29.3 percent of earnings before tax in the same periods of 2019. Income tax expense for the fourth quarter of 2020 was lower primarily due to reduced earnings before tax, a lower Canadian statutory rate, and the effect of earnings taxed in foreign jurisdictions. Fourth quarter earnings in 2020 were generated mainly by foreign jurisdictions with lower statutory tax rates when compared to prior periods, resulting in a decrease to the overall effective tax rate for the quarter. Income tax expense and the effective tax rate for the twelve months of 2020 were lower primarily due to reduced earnings before tax, a lower statutory rate, the exchange rate effects on tax basis, the effect of earnings taxed in foreign jurisdictions, and the effects of prior year revaluation of Canadian deferred tax assets, partially offset by amounts not deductible for tax purposes. During the second quarter of 2019 and fourth quarter of 2020, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 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. Enerflex has appointed Patricia Martinez to the new role of Chief Energy Transition Officer, where she is responsible for driving the global strategy for Enerflex products and services in the Energy Transition space, focused on delivering low-carbon energy solutions and positioning Enerflex for success in a changing market.

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, or until there is a meaningful increase in bookings activity. 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 MEA region, we have seen increasing interest for new assets and have secured contract extensions for certain existing assets, including two long-term extensions in the fourth quarter of 2020 that have been recognized as finance leases. Upon commencement, the Company recognized Rentals revenue, based on the fair value of the underlying assets, and cost of goods sold, determined to be the net book value of those assets, in the consolidated statements of earnings, and future periods will benefit from the monthly rental and operations and maintenance revenue associated with these leases. 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. Subsequent to December 31, 2020, Enerflex was awarded a new 10-year natural gas infrastructure contract representing roughly $35 million in growth capital expenditure for 2021.

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.

Enerflex previously disclosed measures instituted to preserve the strength of our balance sheet and maximize free cash flow in the first quarter of 2020. At December 31, 2020, expected cost savings resulting from workforce and compensation reductions are in line with reduced expectations as previously disclosed. In addition, the Company has received grant funding in the Canada and ROW segments to mitigate further job losses in jurisdictions with grant programs. Growth capital expenditures in 2020 totaled $119.0 million, compared to previously disclosed reduced expectations of approximately $120 million. Maintenance capital expenditures were $14.8 million, compared to previously disclosed reduced expectations of $15 million to $20 million. The Company will continue to exercise 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. 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

In recent years, the USA segment benefitted from a combination of international equipment orders, the U.S. industry's investment in shale oil and gas, and continued demand for the after-market service and contract compression product offerings, the latter of which has grown to over 350,000 horsepower. However, this segment has seen a slowdown in activity levels leading into, and throughout, 2020. While growth in 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 indicate an increased need 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 continues generating strong recurring revenue in both the MEA and Latin America regions through its existing rental fleet and new BOOM projects in Latin America, with earnings and horsepower both set to increase with a 10-year BOOM project in MEA that began generating revenue at the beginning of 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. The Company continues to explore new markets and opportunities within this region, focusing on projects containing Enerflex's Engineered and manufactured products, 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 into 2021.

Canada

The Company expects that spending in the Canadian energy sector will remain constrained in the near term, with a more positive environment emerging in late 2021. Positive movements in natural gas pricing in Canada over the past year, as well as progress made on pipelines and certain LNG projects, has served to improve the medium-term view on the industry. Non-traditional applications, including natural gas-fired power generation, have seen increasing levels of interest in recent periods, and the Company is able to leverage expertise developed across the organization in developing electric power solutions. However, the demand for these applications has not offset the decreased demand for traditional Engineered Systems in recent periods.

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. With the appointment of Patricia Martinez as Chief Energy Transition Officer, the Company is also working closely with our customers as they strive to reduce GHG emissions. The Company's core competency of technological excellence in all aspects of modularized energy systems will allow us to partner with customers on the solutions being explored, including projects related to carbon capture, flare gas to power, electrification of gas processing and compression solutions, renewable natural gas, and hydrogen manufacturing.

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 projects and BOOM solutions of varying size and scope, including projects requiring construction and installation support at site. Successful projects have been completed in Bahrain, Kuwait, and Oman in MEA, and in Argentina, Brazil, and Colombia in Latin America, including three projects that commenced operations in the third quarter of 2020 and a fourth that commenced operations in January 2021. 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.

DEFINITIONS

The success of the Company and its business unit strategies is measured using a number of key financial performance indicators, some of which are outlined below. Some of these indicators 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 Engineered Systems bookings and backlog, recurring revenue, EBITDA, net debt to EBITDA ratio, and return on capital employed ("ROCE"). Further information on these non-IFRS measures is provided in the section, Non-IFRS Measures.

Bookings and Backlog

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

Recurring Revenue

Recurring revenue is defined as revenue from the Service and Rentals product lines. These revenue streams are typically contracted and extend into the future, rather than only being recognized as a single transaction. Service revenues are derived from the ongoing maintenance of equipment that produces gas over the life of a field. Rentals revenues relate to compression, processing, and electric power equipment. This classification is to contrast revenue from these product lines with the Company's Engineered Systems revenues, which are for the manufacturing and delivery of equipment and do not have any recurring aspect once the goods are delivered. While the contracts are subject to cancellation or have varying lengths, the Company does not believe that these characteristics preclude them from being considered recurring in nature.

Operating Income

Operating income assists the reader in understanding the net contributions made from the Company's core businesses after considering all SG&A expenses. Each operating segment assumes responsibility for its operating results as measured by, amongst other factors,

operating income, which is defined as income before income taxes, interest (or finance) costs (net of interest income), equity earnings or loss, and gain or loss on sale of assets. Financing and related charges cannot be attributed to business segments on a meaningful basis that is comparable to other companies. Business segments and income tax jurisdictions are not synonymous, and it is believed that the allocation of income taxes distorts the historical comparability of the operating performance of business segments.

EBIT

EBIT provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed or taxed in the various jurisdictions that the Company operates in.

EBITDA

EBITDA provides the results generated by the Company's primary business activities prior to consideration of how those activities are financed, how assets are amortized, or how the results are taxed in various jurisdictions.

Net Debt to EBITDA

Net debt is defined as short- and long-term debt less cash and cash equivalents at the end of the period which is then divided by the annualized EBITDA.

ROCE

ROCE is a measure to analyze operating performance and efficiency of the Company's capital allocation process. The ratio is calculated by taking EBIT for the 12-month trailing period divided by capital employed. Capital employed is debt and equity less cash for the trailing four quarters.

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 December 31,		Twelve months ended December 31,	
($ Canadian thousands)	2020	2019	2020	2019
EBITDA				
EBIT	$ 30,873	$ 48,813	$ 118,052	$ 233,902
Depreciation and amortization	21,630	21,421	85,265	86,559
EBITDA	$ 52,503	$ 70,234	$ 203,317	$ 320,461
Recurring Revenue				
Service[1]	$ 75,197	$ 92,167	$ 303,269	$ 350,992
Rentals[1]	127,579	62,395	315,217	245,927
Total Recurring Revenue	$ 202,776	$ 154,562	$ 618,486	$ 596,919
ROCE				
Trailing 12-month EBIT	$ 118,052	$ 233,902	$ 118,052	$ 233,902
Capital Employed – beginning of period				
Net debt[2]	$ 322,643	$ 182,001	$ 334,232	$ 117,848
Shareholders' equity	1,417,704	1,338,416	1,342,787	1,282,519
	$ 1,740,347	$ 1,520,417	$ 1,677,019	$ 1,400,367
Capital Employed – end of period				
Net debt[2]	$ 294,036	$ 334,232	$ 294,036	$ 334,232
Shareholders' equity	1,396,695	1,342,787	1,396,695	1,342,787
	$ 1,690,731	$ 1,677,019	$ 1,690,731	$ 1,677,019
Average Capital Employed[3]	$ 1,777,890	$ 1,483,919	$ 1,777,890	$ 1,483,919
Return on Capital Employed	6.6%	15.8%	6.6%	15.8%

[1] 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. For the three and twelve months ended December 31, 2019, $11,464 and $43,594 have been reclassified. Please refer to Note 23 of the audited 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 December 31, 2020	Three months ended December 31, 2019	Twelve months ended December 31, 2020	Twelve months ended December 31, 2019
Cash provided by (used in) operating activities	$ 55,277	$ (82,333)	$ 220,248	$ 54,169
Net change in non-cash working capital and other	(15,777)	(140,131)	32,776	(221,749)
	$ 71,054	$ 57,798	$ 187,472	$ 275,918
Add-back:				
Net finance costs	4,854	5,474	22,493	18,578
Current income tax expense	(18,152)	9,347	(6,872)	31,720
Proceeds on the disposal of property, plant and equipment	19	112	115	9,205
Proceeds on the disposal of rental equipment	42	1,334	3,121	4,454
Deduct:				
Net interest paid	(9,342)	(9,773)	(22,374)	(18,398)
Net cash taxes paid	(4,581)	(9,965)	(13,259)	(29,434)
Additions to property, plant and equipment	(1,221)	(8,289)	(9,874)	(46,322)
Additions to rental equipment:				
Growth	(9,815)	(74,481)	(110,820)	(208,978)
Maintenance	(3,888)	(2,017)	(13,059)	(8,090)
Dividends paid	(1,794)	(9,414)	(24,212)	(37,548)
Free cash flow	$ 27,176	$ (39,874)	$ 12,731	$ (8,895)

For the three and twelve months ended December 31, 2020, free cash flow increased compared to the same periods in 2019, 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 in the twelve months ended December 31, 2020 by lower cash provided by operating activities before non-cash working capital and higher net interest paid. As announced in the first quarter of 2020, Enerflex will proceed only with those growth capital expenditures connected to existing contractual obligations, as well as required maintenance capital expenditures. Notwithstanding, the Company's current financial position affords it some flexibility to pursue additional growth opportunities, should they arise when the macro environment is more constructive. Under favourable circumstances, additional capital may be directed to growth opportunities in any of our regions.

FINANCIAL POSITION

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

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(274.8)	The decrease in current assets is due to lower accounts receivable, contract assets, and inventories, partially offset by increased income taxes receivable and current portion of finance leases receivable. Accounts receivable decreased due to the collection of trade receivables, lower overall activity levels, and increased allowance for doubtful accounts provision. Contract assets decreased due to lower activity levels and amounts reclassified to other assets, while inventory decreased due to the realization of major equipment inventory into projects. Income taxes receivable increased on utilization of tax loss carryback, while the current portion of finance leases receivable increased due to the recognition of a finance lease transaction in the fourth quarter of 2020.
Rental equipment	$(4.3)	The decrease in rental equipment is largely due to certain assets that were included in a finance lease transaction in the fourth quarter of 2020, and removed from rental equipment. Rental equipment also decreased due to depreciation and the weakening of the U.S. dollar at December 31, 2020 that impacts the revaluation of U.S. dollar denominated rental equipment. This was partially offset by additions during the year, primarily on the contract compression fleet in the USA and BOOM projects in ROW.
Finance leases receivable	$60.8	The increase in finance leases receivable is due to the recognition of a finance lease transaction in the fourth quarter of 2020.
Other assets	$32.7	The increase in other assets is largely due to a balance previously included in contract assets at December 31, 2019 that was reclassified to a long-term receivable during the first quarter of 2020, as well as preferred shares recorded in the third quarter of 2020.
Current liabilities	$(176.3)	The decrease in current liabilities is due to lower accounts payable, provisions, and deferred revenues, partially offset by a portion of long-term debt that was classified as current in the second quarter of 2020. Lower accounts payable and deferred revenues were due to lower overall activity levels, while provisions decreased due to lower warranty and legal provisions at December 31, 2020.
Long-term debt	$(80.8)	The decrease in long-term debt is due to repayments made on the Bank Facility, the weakening of the U.S. dollar at December 31, 2020, and a portion of long-term debt that was classified as current in the second quarter of 2020.
Shareholders' equity before non-controlling interest	$55.4	Shareholders' equity before non-controlling interest increased primarily due to $88.1 million net earnings, partially offset by $18.5 million unrealized loss on translation of foreign operations and dividends of $15.7 million.

LIQUIDITY

The Company expects that continued cash flows from operations in 2020, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at December 31, 2020, the Company held cash and cash equivalents of $95.7 million and had cash drawings of $84.4 million against the amended and restated syndicated revolving credit facility (the "Bank Facility"), leaving it with access to $593.1 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 1.3:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 10:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended December 31, 2020	2019	Twelve months ended December 31, 2020	2019
Cash, beginning of period	$ 99,529	$ 219,544	$ 96,255	$ 326,864
Cash provided by (used in):				
Operating activities	55,277	(82,333)	220,248	54,169
Investing activities	(20,198)	(57,287)	(137,759)	(222,820)
Financing activities	(38,425)	16,324	(82,050)	(60,980)
Exchange rate changes on foreign currency cash	(507)	7	(1,018)	(978)
Cash, end of period	$ 95,676	$ 96,255	$ 95,676	$ 96,255

Operating Activities

For the three and twelve months ended December 31, 2020, cash provided by operating activities improved over the same period in 2019, 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 and twelve months ended December 31, 2020, 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 property, plant and equipment.

Financing Activities

For the three months ended December 31, 2020, 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 2019, partially offset by lower dividends paid. For the twelve months ended December 31, 2020, cash used in financing activities increased primarily due to higher repayments of long-term debt, 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
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

SELECTED ANNUAL INFORMATION

($ Canadian thousands, except per share amounts)		Total Assets		Total Non-Current Financial Liabilities		Cash Dividends Declared Per Share
December 31, 2020	$	2,179,576	$	349,712	$	0.175
December 31, 2019[1]		2,381,008		430,487		0.43
December 31, 2018		2,482,859		444,712		0.39

[1] Certain December 31, 2019 balances have been reclassified. Refer to Note 2(b) in the audited consolidated financial statement for additional detail.

RISK MANAGEMENT

In the normal course of business, the Company is exposed to financial and operating risks that may potentially impact its operating results. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. The Company enters into derivative financial agreements to manage exposure to fluctuations in exchange rates and interest rates, but not for speculative purposes.

Energy Prices, Industry Conditions, and the Cyclical Nature of the Energy Industry

The oil and gas service industry is highly reliant on the levels of capital expenditures made by oil and gas producers and explorers. The capital expenditures of these companies, along with those midstream companies who service these oil and gas explorers and producers, impact the demand for Enerflex's equipment and services. Capital expenditure decisions are based on various factors, including but not limited to: demand for hydrocarbons and prices of related products; exploration and development prospects in various jurisdictions; reserve production levels; oil and natural gas prices; and access to capital — none of which can be accurately predicted. Any downturn in commodity prices may lead to reduced levels of growth capital expenditures, which may negatively impact the demand for the products and services that Enerflex offers. Even the perception of lower oil or gas prices over the long term can result in a decision to cancel or postpone exploration and production capital expenditures, which may lead to a reduced demand for products and services offered by Enerflex.

The supply and demand for oil and gas is influenced by a number of factors, including the outlook for worldwide economies, as well as the activities of the Organization of Petroleum Exporting Countries ("OPEC"). Changing political, economic, or military circumstances throughout the energy producing regions of the world may impact the demand for oil and natural gas for extended periods of time, which in turn impacts the price of oil and natural gas. If economic conditions or international markets decline unexpectedly and oil and gas producing customers decide to cancel or postpone major capital expenditures, the Company's business may be adversely impacted.

Competition

The business in which Enerflex operates is highly competitive and there are low barriers to entry, especially for natural gas compression services, contract compression, and the compression fabrication business. Several companies target the same customers as Enerflex in markets where margins can be low and contract negotiations can be challenging. Enerflex has a number of competitors in all aspects of its business, both domestically and abroad. Some of these competitors, particularly in the Engineered Systems division, are also large, multi-national companies. The Company's competitors may be able to adapt more quickly to technological changes within the industry or changes in economic and market conditions, more readily take advantage of acquisitions and other opportunities, and adopt more aggressive pricing policies. In addition, the Company could face significant competition from new entrants. Some of Enerflex's existing competitors or new entrants may expand or fabricate new equipment that would create additional competition for the products, equipment, or services that Enerflex offers to customers. Further, the Company may not be able to take advantage of certain opportunities or make certain investments because of capital constraints, debt levels and other obligations.

Any of these competitive pressures could have a material adverse effect on the Company's business, financial condition, and results of operations.

Project Execution Risk

Enerflex engineers, designs, manufactures, constructs, commissions, operates, and services systems that process and/or compress products in a gaseous state. Enerflex's expertise encompasses field production facilities, gas compression and processing plants, gas lift compression, refrigeration systems, and electric power equipment, primarily serving the natural gas production industry. The Company

participates in some projects that have a relatively larger size and scope than the majority of its projects, which may translate into more technically challenging conditions or performance specifications for its products and services. These projects typically specify delivery dates, performance criteria, and penalties for the failure to perform. The Company's ability to profitably execute on these solutions for customers is dependent on numerous factors which include, but are not limited to: changes in project scope; the availability and timeliness of external approvals and other required permits; skilled labour availability and productivity; availability and cost of material and services; the accuracy of design, engineering, and construction; and the availability of contractors to support execution of the Company's scope on these projects. Any failure to execute on these larger projects in a timely and cost-effective manner could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

The Company pursues continuous improvement initiatives to achieve accurate, complete, and timely provision of deliverables. Nonetheless, project risks can translate into performance issues and project delays, as well as project costs exceeding cost estimates. While the Company will assess the recoverability of any cost overruns, there can be no assurance that these costs will be reimbursed, which may result in a material adverse effect on our business, financial condition, results of operations, and cash flows.

Climate Change Risks

Regulatory and Policy Risks

Climate change policy is evolving at regional, national, and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. While Enerflex does not currently exceed the applicable thresholds for mandatory GHG reporting or reduction initiatives in its jurisdictions of operations, there is a trend in recent periods towards greater regulation of GHG emissions. Although it is not possible at this time to predict how new laws or regulations would impact the Company's business, any such future requirements imposing carbon pricing schemes, carbon taxes, or emissions reduction obligations on the Company's equipment and operations could require it to incur costs to reduce emissions or to purchase emission credits or offsets and may cause delays or restrictions in its ability to offer its products and services. Such future regulations may also impose significant liabilities on failure to comply with their requirements. Any such regulations could also increase the costs of compliance for Enerflex's customers, and thereby negatively impact demand for the Company's products and services.

The direct or indirect costs of compliance with these regulations may have a material adverse effect on the business, financial condition, results of operations, and prospects of the Company. Given the evolving nature of the debate related to climate change and the control of GHGs and resulting regulatory requirements, it is not possible to predict with certainty the impact on the Company and its operations and financial condition.

Physical Risks

There has been public discussion that climate change may be associated with extreme weather conditions such as more intense hurricanes, droughts, forest fires, thunderstorms, tornados, and snow or ice storms, as well as rising sea levels and other acute (event-driven) and chronic (long-term) climate events. Another possible consequence of climate change is increased volatility in seasonal temperatures. Some studies indicate that climate change could cause some areas to experience temperatures substantially colder or warmer than their historical averages.

To the extent there are significant climate changes in the markets Enerflex serves or areas where our assets reside, Enerflex could incur increased costs, its assets could be damaged, it could experience supply chain disruption, operations could be materially impacted (such as shut-down requirements), there may be health implications for its employees, and its customers may experience operational disruptions causing reduced demand for the Company's products. At this time, the Company is unable to determine the extent to which climate change may lead to increased climate events affecting its operations.

Technological Risks

Demand for our products may also be adversely affected by the development and demand for new technologies in response to global climate change. Many governments provide, or may in the future provide, tax advantages and other subsidies to support the use and development of alternative energy technologies. Technological advances and cost declines in alternative energy sources (such as hydrogen and renewables), electric grids, electric vehicles, and batteries may reduce demand for hydrocarbon, which could lead to a lower demand for the Company's natural-gas oriented products and services. If customer preferences shift, the Company may also be required to develop new technologies, requiring significant investments of capital and resources. At this time, the Company is unable to determine the extent to which such technological risks may impact its business prospects and financial condition.

ESG and Investor Sentiment

A number of factors, including the impact of oil and natural gas operations on the environment, the effects of the use of hydrocarbons on climate change, ecological damage relating to spills of petroleum products during production and transportation, and human rights, have affected certain investors' sentiments towards investing in the oil and natural gas industry. As a result of these concerns, some institutional, retail, and governmental investors have announced that they are no longer willing to fund or invest in companies in the oil and natural gas industry, or are reducing the amount thereof over time. Any reduction in the investor base interested or willing to invest in the oil and natural gas industry may result in limiting Enerflex's access to capital, increasing its cost of capital, and decreasing the price and liquidity of Enerflex's securities.

In addition, practices and disclosures relating to ESG matters (including but not limited to climate change and emissions, diversity and inclusion, data security and privacy, ethical sourcing, and water, waste and ecological management) are attracting increasing scrutiny by stakeholders. Certain stakeholders are requesting that issuers develop and implement more robust ESG policies and practices. Developing and implementing such policies and practices can involve significant costs and require a significant time commitment from the Board of Directors, Executive Management Team, and employees of Enerflex. Failing to implement the policies and practices, as requested or expected by Enerflex's stakeholders, may result in such investors reducing their investment in Enerflex, or not investing in Enerflex at all. The Company's response to addressing ESG matters and any negative perception thereof can also impact Enerflex's reputation, business prospects, ability to hire and retain qualified employees, and vulnerability to activist shareholders. Such risks could adversely affect Enerflex's business, future operations, and profitability.

Customer Credit Risk

A substantial portion of Enerflex's accounts receivable balances are with customers involved in the oil and natural gas industry. Many customers finance their exploration and development activities through cash flow from operations, the incurrence of debt, or the issuance of equity. During times when the oil or natural gas markets weaken, customers may experience decreased cash flow from operations, or a reduction in their ability to incur debt or access equity financing. A reduction in borrowing bases under reserve-based credit facilities, the lack of availability of debt or equity financing or other factors that negatively impact our customers' financial condition may impair their ability to pay for products or services rendered. Enerflex may extend credit to certain customers for products and services that it provides during its normal course of business. Enerflex monitors its credit exposure to its customers, but there can be no certainty that a credit-related loss will not materialize or have a material adverse impact on the organization. The consolidation of energy producers and the developing trend for smaller start-up exploration corporations may alter Enerflex's exposure to credit risk. The financial failure of a customer may impair the Company's ability to collect on all or a portion of the accounts receivable balance from that customer.

The Company has remained vigilant during 2020 in monitoring the aging of receivables and proactively collecting outstanding balances. To address the challenging economic conditions confronted by the oil and natural gas industry, Enerflex has implemented additional monitoring processes in assessing the creditworthiness of its customers.

Public Health Crises, Including COVID-19

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

Contract Compression Operations

The duration of Enerflex's rental contracts with customers vary based on operating conditions and customer needs. Initial contract terms typically are not long enough to enable the Company to recoup the cost of the equipment deployed in the rental business segment. Many of Enerflex's North American rental contracts have short initial terms and after the initial term are cancelable on short notice. While

these contracts are frequently extended beyond their initial terms, Enerflex cannot be sure that a substantial number of these contracts will be extended or renewed beyond the initial term or that any customer will continue to contract with Enerflex. The inability to negotiate extensions or renew a substantial portion of the Company's rental contracts, the renewal of such contracts at reduced rates, the inability to contract for additional services with customers, or the loss of all or a significant portion of the rental contracts with any significant customer could lead to a reduction in revenues and net income and could result in asset impairments. This could have a material adverse effect upon Enerflex's business, financial condition, results of operations and cash flows.

Contracted Revenue

Many of Enerflex's customers finance their exploration and development activities through cash flow from operations, incurrence of debt, or issuance of equity. If our customers experience decreased cash flow from operations and limitations on their ability to incur debt or raise equity, for example due to weak oil or natural gas prices or reservoir underperformance, then they may seek to preserve capital by pursuing price concessions on revenue contracts, cancelling contracts, or determining not to renew contracted recurring revenue contracts. Under these circumstances, the Company may be unable to renew recurring revenue contracts with customers on favorable commercial terms, if at all. Terms of new contracts or renegotiated contracts may also transfer additional risk of liquidated damages, consequential loss, liability caps, and indemnities to the Company. These factors may lead to a reduction in our revenue and net income, which could have a material adverse effect on Enerflex's business, financial condition, results from operations and cash flows. To the extent that the Company is unable to renew existing contracts or enter into new contracts that are on favorable terms to Enerflex, overall revenue mix may change over time which could have a material adverse effect on the Company's business, results from operations and cash flows.

Compliance with HSE Regulations

The Company and many of its customers are subject to a variety of federal, provincial, state, local, and international laws and regulations relating to HSE. These laws and regulations are complex, subject to periodic revision, and are becoming increasingly stringent. The cost of compliance with these requirements may increase over time thereby increasing the Company's operating costs or negatively impacting the demand for the Company's products and services. Failure to comply with these laws and regulations may result in administrative, civil, and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance.

Compliance with environmental laws is a continuous priority across Enerflex operations and in the manufacturing of the Company's products, as the Company uses and stores hazardous substances in its operations. In addition, many of the Company's current and former properties are or have been used for industrial purposes. Certain environmental laws may impose joint and several and strict liability for environmental contamination, which may render the Company liable for remediation costs, natural resource damages, and other damages as a result of our conduct or the conduct of, or conditions caused by, prior owners or operators or other third parties. In addition, where contamination may be present, it is possible that neighboring landowners and other third parties may file claims for personal injury, property damage, and recovery of response costs. Remediation costs and other damages arising as a result of environmental laws and regulations could be substantial and could negatively impact financial condition, profitability and results of operations.

Enerflex may need to apply for or amend facility permits or licenses from time to time with respect to storm water, waste handling, or air emissions relating to manufacturing activities or equipment operations, which may subject Enerflex to new or revised permitting conditions. These permits and authorizations may contain numerous compliance requirements, including monitoring and reporting obligations and operational restrictions, such as emission limits, which may be onerous or costly to comply with. Given the large number of facilities in which Enerflex operates, and the numerous environmental permits and other authorizations that are applicable to our operations, the Company may occasionally identify or be notified of technical violations of certain compliance requirements and could be subject to penalties related thereto.

The adoption of new HSE laws or regulations, or the more vigorous enforcement of existing laws or regulations, may also negatively impact Enerflex's customers and demand for the Company's products and services, which in turn would have a negative impact on the Company's financial results and operations.

The Company is also subject to various federal, provincial, state, and local laws and regulations relating to safety and health conditions in its manufacturing facilities and other operations. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any noncompliance, as well as potential business disruption if any of its facilities, or a portion of any facility, is required to be temporarily closed as a result of any violation of those laws and regulations. Any such financial liability or business disruption could have a material adverse effect on the Company's projections, business, results of operations, and financial condition.

Health and Safety Risks

Our operations are subject to hazardous health and safety inherent in manufacturing, construction, and operations. These risks include but are not limited to: explosions caused by natural gas leaks; fires; severe weather and natural disasters; malfunctioning or improperly used tools and equipment; and vehicle collisions and other transportation incidents.

Failure to prevent or appropriately respond to a safety or health incident could result in injuries or fatalities among our employees, contractors, visitors, or residents in communities near our operations. Such incidents may lead to liabilities arising out of personal injuries or death, operational interruptions, and shutdown or abandonment of affected facilities. Preventing or responding to accidents could require Enerflex to expend significant managerial time and effort, and financial resources to remediate safety issues, compensate injured parties, or repair damaged facilities. Any of the foregoing could have an adverse impact on our financial results and our reputation.

International Operations

Enerflex operates in many countries outside of North America, and these operations account for a significant amount of the Company's revenue. Enerflex is exposed to risks inherent in conducting international operations, including but not limited to:

- Recessions and other economic crises that may impact the Company's cost of conducting business in those countries;
- Difficulties in staffing and managing foreign operations including logistical, safety, security, and communication challenges;
- Changes in foreign government policies, laws, regulations, and regulatory requirements, or the interpretation, application and/or enforcement thereof;
- Failure to comply with applicable anti-corruption, anti-bribery, sanctions, and trade laws;
- Difficulties in engaging third-party agents to interface with clients or otherwise act on the Company's behalf in certain jurisdictions;
- Difficulty or expense of enforcing contractual rights due to the lack of a developed legal system or otherwise;
- Renegotiation or nullification of existing contracts;
- The adoption of new, or the expansion of existing, trade restrictions, or embargoes;
- Difficulties, delays, and expenses that may be experienced or incurred in connection with the movement and clearance of personnel and goods through the customs and immigration authorities of multiple jurisdictions;
- Being subject to the exclusive jurisdiction of foreign courts;
- Social, political, and economic instability;
- Confiscation, expropriation, or nationalization of property without fair compensation;
- Tax increases or changes in tax laws or in the interpretation, application and/or enforcement thereof; and
- Limitations on the Company's ability to repatriate cash, funds, or capital invested or held in jurisdictions outside Canada.

In addition, Enerflex may expand the business to markets where the Company has not previously conducted business. The risks inherent in establishing new business ventures, especially in international markets where local customs, laws, and business procedures present special challenges, may affect Enerflex's ability to be successful in these ventures.

To the extent Enerflex's international operations are affected by unexpected or adverse economic, political, and other conditions, the Company's business, financial condition, and results of operations may be adversely affected.

Corruption, Sanctions, Trade Compliance

The Company is required to comply with Canadian, U.S., and international laws and regulations regarding corruption, anti-bribery, sanctions, and trade compliance. Enerflex conducts business in many parts of the world that experience high levels of corruption, relies on third party agents to interface with its clients and otherwise act on the Company's behalf in some jurisdictions, and is subject to various laws that govern the import and export of its equipment from country to country.

While Enerflex has developed policies and procedures designed to achieve and maintain compliance with applicable laws, the Company could be exposed to investigations, claims, and other regulatory proceedings for alleged or actual violations of laws related to our operations, including anti-corruption and anti-bribery legislation, trade laws, and sanctions laws. The Canadian government, the U.S. Department of Justice, the Securities and Exchange Commission (SEC), the U.S. Office of Foreign Assets Control, and similar agencies and authorities in other jurisdictions have a broad range of civil and criminal penalties they may seek to impose against corporations and individuals for such violations, including injunctive relief, disgorgement, fines, penalties, and modifications to business practices and compliance programs, among other things. While we cannot accurately predict the impact of any of these factors, if any of those risks materialize, it could have a material adverse effect on our reputation, business, financial condition, results of operations, and cash flow.

Litigation Risk and Liability Claims

In the normal course of Enerflex's operations, it may become involved in, named as a party to, or be the subject of various legal proceedings, including regulatory proceedings, tax proceedings, and legal actions related to contract disputes, property damage, environmental matters, employment matters, and personal injury.

The Company's operations entail inherent risks, including but not limited to equipment defects, malfunctions and failures, and natural disasters that could result in uncontrollable flows of natural gas or well fluids, fires, and explosions. These risks may expose the Company to substantial liability claims, which could adversely affect its projections, business, results of operations, and financial condition. Some of the Company's products are used in hazardous applications where an accident or a failure of a product could cause personal injury or loss of life, or damage to property, equipment, or the environment, as well as the suspension of the end-user's operations. If the Company's products were to be involved in any of these incidents, the Company could face litigation and may be held liable for those losses. The Company may not be able to adequately protect itself contractually and insurance coverage may not be available or adequate in risk coverage or policy limits to cover all losses or liabilities that it may incur. Moreover, the Company may not be able in the future to maintain insurance at levels of risk coverage or policy limits that management deems adequate. Any claims made under the Company's policies likely will cause its premiums to increase. Any future damages deemed to be caused by the Company's products or services that are not covered by insurance, or that are in excess of policy limits or subject to substantial deductibles, could have a material adverse effect on the Company's projections, business, results of operations, and financial condition.

Defense and settlement costs associated with lawsuits and claims can be substantial, even with respect to lawsuits and claims that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have an adverse effect on Enerflex's operating results or financial performance.

Information Technology and Information Security

We are dependent upon the availability, capacity, reliability, and security of our information technology infrastructure and our ability to expand and continually update this infrastructure, to conduct daily operations. Information technology assets and protocols become increasingly important to Enerflex as it continues to expand internationally, provide information technology access to global personnel, develop web-based applications and monitoring products, and improve its business software applications. If any such programs or systems were to fail or create erroneous information in the Company's hardware or software network infrastructure, it could have a material adverse effect on the Company's business activities.

Enerflex may be threatened by or subjected to cyberattack risks such as cyber-fraud, viruses, malware infections, or social engineering activities like phishing and employee impersonation, which may disrupt operations and harm operating results. Cyberattacks have become more prevalent and much harder to detect and defend against. These threats may arise from a variety of sources, all ranging in sophistication from an individual hacker to alleged state-sponsored attacks. A cyberattack may be generic, or it may be custom-crafted to target the specific information technology used by Enerflex.

The Company may be targeted by parties using fraudulent spoof and phishing emails to misappropriate Enerflex information, or the information of our customers and suppliers, or to introduce viruses or other malware through "trojan horse" programs into computer networks of the Company, our customers and/or our suppliers. These phishing emails may appear upon a cursory review to be legitimate emails sent by a member of Enerflex, its customers, or suppliers. If a member of Enerflex or a member of one of its customers or suppliers fails to recognize that a phishing email has been sent or received and responds or forwards the phishing email, the attack could corrupt the computer networks and/or access confidential information of Enerflex, its customers, employees, and/or suppliers, including passwords, through email or downloaded malware. In addition to spoof and phishing emails, network and storage applications may be subject to unauthorized access by hackers or breached due to operator error, malfeasance, or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents.

Security measures and employee education and training have been implemented to protect the Company's information security and network infrastructure. However, the Company's mitigation measures cannot provide absolute security, and the information technology infrastructure may be vulnerable to criminal cyberattacks or data security incidents due to employee or customer error, malfeasance, or other vulnerabilities. Additionally, Enerflex is reliant on third-party service providers for certain information technology applications. While the Company conducts due-diligence and believes that these third-party service providers have adequate security measures, there can be no assurance that these security measures will prevent any cyber events or computer viruses from impacting the applications that Enerflex relies on.

If Enerflex's information technology systems were to fail and the Company was unable to recover in a timely way, the Company might be unable to fulfill critical business functions, which could damage the Company's reputation and have a material adverse effect on the business, financial condition, and results of operations. A breach of Enerflex's information security measures or controls could result in losses of material or confidential information, reputational consequences, financial damages, breaches of privacy laws, higher insurance premiums, damage to assets, safety issues, operational downtime or delays, and revenue losses. The significance of any such event is difficult to quantify, but may in certain circumstances be material to the Company and could have adverse effects on the Company's business, financial condition and results of operations.

Availability of Raw Materials, Component Parts, or Finished Products

Enerflex purchases a broad range of materials and components in connection with its manufacturing and service activities. Some of the components used in Enerflex's products are obtained from a single source or a limited group of suppliers. While Enerflex and its people make it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue and reliance on these suppliers involves several risks, including price increases, inferior component quality, unilateral termination, and a potential inability to obtain an adequate supply of required components in a timely manner. In particular, long lead times for high demand components, such as engines, can result in project delays. While Enerflex has long standing relationships with recognized and reputable suppliers, it does not have long-term contracts with all of them, and the partial or complete loss of certain of these sources could have a negative impact on Enerflex's results of operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on results of operations.

Though Enerflex is generally not dependent on any single source of supply, the ability of suppliers to meet performance, quality specifications, and delivery schedules is important to the maintenance of Enerflex customer satisfaction. If the availability of certain OEM components and repair parts, which are generally in steady demand, is constrained or delayed, certain of Enerflex's operational or financial results may be adversely impacted.

Personnel and Contractors

The Company's ability to attract and retain qualified personnel and provide the necessary organizational structure, programs, and culture to engage and develop employees is crucial to its growth and achieving its business results.

Enerflex's Engineered Systems product line requires skilled engineers and design professionals in order to maintain customer satisfaction through industry leading design, build, and installation of the Company's product offering. Enerflex competes for these professionals, not only with other companies in the same industry, but with oil and natural gas producers and other industries. In periods of high activity, demand for the skills and expertise of these professionals increases, making the hiring and retention of these individuals more difficult.

Enerflex's Service product line relies on the skills and availability of trained and experienced tradesmen, mechanics, and technicians to provide efficient and appropriate services to Enerflex and its customers. Hiring and retaining such individuals is critical to the success of Enerflex's business. Demographic trends are reducing the number of individuals entering the trades, making Enerflex's access to skilled individuals more difficult.

There are certain jurisdictions where Enerflex relies on third-party contractors to carry out the operation and maintenance of its equipment. The ability of our third-party contractors to find and retain individuals with the proper technical background and training is critical to the continued success of the contracted operations in these jurisdictions. If Enerflex's third-party contractors are unable to find and retain qualified operators, or the cost of these qualified operators increases substantially, the contract operations business could be materially impacted.

Additionally, in increasing measures, Enerflex is dependent upon the skills and availability of various professional and administrative personnel to meet the increasing demands of the requirements and regulations of various professional and governmental bodies.

There are few barriers to entry in a number of Enerflex's businesses, so retention of qualified staff is essential in order to differentiate Enerflex's businesses and compete in its various markets. Enerflex's success depends on key personnel and its ability to hire and retain skilled personnel, and the loss of skilled personnel could delay the completion of certain projects or otherwise adversely impact certain of our operational and financial results.

Terrorism

Terrorist activities (including environmental terrorism), anti-terrorist efforts, and other armed conflicts may adversely affect the global economies and could prevent the Company from meeting its financial and other obligations to the extent such conflicts impact our operations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for the Company's products and services and causing a reduction in the Company's revenues. In addition, the Company's assets may be direct targets of terrorist attacks that could disrupt Enerflex's ability to service its customers. The Company may be required by regulators or by the future terrorist threat environment to make investments in security that cannot be predicted. The implementation of security guidelines and measures and the maintenance of insurance, to the extent available, to address such activities could increase Enerflex's costs. These types of events could materially adversely affect the Company's business and results of operations.

Insurance

Enerflex's operations are subject to risks inherent in the oil and natural gas services industry, such as equipment defects, malfunctions and failures, and natural disasters with resultant uncontrollable flows of oil and natural gas, fires, spills, and explosions. These risks could expose Enerflex to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Enerflex carries prudent levels of insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. In addition, the Company has procured a dedicated cyber insurance policy designed to help mitigate against the risk of cyber-related events and executive liability insurance to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives.

Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage. It is anticipated that appropriate insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Enerflex's current arrangements. The occurrence of a significant event outside of the scope of coverage of the Enerflex insurance policies could have a material adverse effect on the results of the organization.

Access to Capital

Enerflex relies on its cash, as well as the credit and capital markets to provide some of the capital required to continue operations. Enerflex relies on its Bank Facility and Senior Notes to meet its funding and liquidity requirements. The Company's Bank Facility, which is senior unsecured indebtedness and is subject to floating rates of interest, is due on June 30, 2023 and may be renewed annually with the consent of the lenders. The Senior Notes, which are also senior unsecured indebtedness of the organization, mature as follows: C$40.0 million of ten-year notes mature on June 22, 2021; U$105.0 million and C$15.0 million of seven-year notes mature on December 15, 2024; and U$70.0 million and C$30.0 million of ten-year notes mature on December 15, 2027. As of December 31, 2020, the Company had $307.8 million in Senior Notes issued and outstanding, and $84.4 million outstanding on its Bank Facility.

Significant instability or disruptions to the capital markets, including the credit markets, may impact the Company's ability to successfully renegotiate all or part of its Bank Facility prior to its due date which could have important adverse consequences including:

- Making it more difficult to satisfy contractual obligations;
- Increasing vulnerability to general adverse economic conditions and industry conditions;
- Limiting the ability to fund future working capital, capital expenditures or acquisitions;
- Limiting the ability to refinance debt in the future or borrow additional funds to fund ongoing operations; and
- Paying future dividends to shareholders.

As at December 31, 2020, the Company had $593.1 million available in borrowing base on its Bank Facility.

The Company's Bank Facility and the Note Purchase Agreement also contain a number of covenants and restrictions with which Enerflex and its subsidiaries must comply, including, but not limited to, use of proceeds, limitations on our ability to incur additional indebtedness, transactions with affiliates, mergers and acquisitions, and our ability to sell assets. The Company's ability to comply with these covenants and restrictions may be affected by events beyond its control, including prevailing economic, financial, and industry conditions. If market or other economic conditions deteriorate, the Company's ability to comply with these covenants may be impaired. Failure to meet any of these covenants, financial ratios, or financial tests could result in events of default under each agreement which require the Company to repay its indebtedness under those agreements and could impair the Company's ability to access the capital markets for financing. While Enerflex is currently in compliance with all covenants, financial ratios, and financial tests, there can be no assurance that it will be

able to comply with these covenants, financial ratios, and financial tests in future periods. These events could restrict the Company's and other guarantors' ability to fund its operations, meet its obligations associated with financial liabilities, or declare and pay dividends.

Payment of Future Cash Dividends

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

Foreign Exchange

Enerflex reports its financial results to the public in Canadian dollars; however, a significant percentage of its revenues and expenses are denominated in currencies other than Canadian dollars. The Company identifies and hedges all significant transactional currency risks and its hedging policy remains unchanged in the current year. Further information on Enerflex's hedging activities is provided in Note 28 in the audited consolidated financial statements for the year ended December 31, 2020.

Transaction Exposure

The Canadian operations of the Company source the majority of their products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company also sells compression and processing packages in foreign currencies, primarily the U.S. dollar. Most of Enerflex's international orders are manufactured in the United States if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company has implemented a hedging policy, applicable primarily to the Canadian operations, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract. The Company utilizes a combination of foreign denominated debt and currency forward contracts to meet its hedging objective.

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar, and Brazilian real.

Assets and liabilities of foreign subsidiaries are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income ("AOCI"). The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. Such exchange rate fluctuations could be material year-over-year relative to the overall earnings or financial position of the Company.

Interest Rate Risk

The Company's liabilities include long-term debt that may be subject to fluctuations in interest rates. The Company's Senior Notes outstanding at December 31, 2020 are at fixed interest rates and therefore will not be impacted by fluctuations in market interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates. As at December 31, 2020 the Company had $84.4 million of indebtedness that is effectively subject to floating interest rates. Changes in economic conditions outside of Enerflex's control could result in higher interest rates, thereby increasing Enerflex's interest expense which may have a material adverse impact on Enerflex's financial results, financial condition, or ability to declare and pay dividends.

For each one percent change in the rate of interest on the Bank Facility, the change in interest expense for the twelve months ended December 31, 2020 would be approximately $0.8 million. All interest charges are recorded in finance costs on the consolidated

statements of earnings. Any increase in market interest rates could have a material adverse impact on the Company's financial results, financial condition, or ability to declare and pay dividends.

Inflationary Pressures

Strong economic conditions and competition for available personnel, materials, and major components may result in significant increases in the cost of obtaining such resources. To the greatest extent possible, Enerflex passes such cost increases on to its customers and it attempts to reduce these pressures through proactive procurement and human resource practices. Should these efforts not be successful, the gross margin and profitability of Enerflex could be adversely affected.

Seasonal Factors and Demand

Demand for natural gas fluctuates largely with the heating and electric power requirements caused by the changing seasons in North America. Cold winters typically increase demand for, and the price of, natural gas. This increases customers' cash flow, which can have a positive impact on Enerflex. At the same time, access to many western Canadian oil and natural gas properties is limited to the period when the ground is frozen so that heavy equipment can be transported. As a result, the first quarter of the year is generally accompanied by increased winter deliveries of equipment. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and development operations, reduces the ability to supply natural gas production in the short-term, and can negatively impact the demand for Enerflex's products and services.

CAPITAL RESOURCES

On January 31, 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 fourth quarter of 2020, 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 December 31, 2020, the Company had drawn $84.4 million against the Bank Facility (December 31, 2019 - $121.3 million). The weighted average interest rate on the Bank Facility at December 31, 2020 was 2.3 percent (December 31, 2019 – 3.5 percent).

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

($ Canadian thousands)		December 31, 2020		December 31, 2019
Drawings on Bank Facility	$	84,369	$	121,328
Senior Notes due June 22, 2021		40,000		40,000
Senior Notes due December 15, 2024		148,686		151,374
Senior Notes due December 15, 2027		119,124		120,916
Deferred transaction costs		(2,467)		(3,131)
	$	389,712	$	430,487
Current portion of long-term debt	$	40,000	$	-
Non-current portion of long-term debt		349,712		430,487
	$	389,712	$	430,487

At December 31, 2020, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $273.1 million, and $119.1 million thereafter.

CONTRACTUAL OBLIGATIONS COMMITTED CAPITAL INVESTMENT, AND OFF-BALANCE SHEET ARRANGEMENTS

The Company's contractual obligations are contained in the following table:

($ Canadian thousands)		Leases		Purchase Obligations		Total
2020	$	15,562	$	58,266	$	73,828
2021		13,017		1,459		14,476
2022		9,051		118		9,169
2023		6,172		-		6,172
2024		6,124		-		6,124
Thereafter		25,676		-		25,676
Total contractual obligations	$	75,602	$	59,843	$	135,445

The Company's lease commitments are operating leases for premises, equipment, and service vehicles.

The majority of the Company's purchase commitments relate to major components for the Engineered Systems and Rentals product lines and to long-term information technology and communications contracts entered into in order to reduce the overall cost of services received.

The Company does not have off-balance sheet arrangements that have, or are reasonably likely to have, a current or future material effect on the Company's financial condition, results of operations, liquidity, or capital expenditures.

RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Roska DBO, the Company's 45 percent equity investment, the Company's 50 percent controlling interest in Geogas consortium, and the Company's 65 percent interest in a joint venture in Brazil.

On December 22, 2020, Enerflex entered into an agreement to terminate a joint operation and to purchase the assets of that joint operation for net consideration of $6.7 million Brazilian real ($1.7 million Canadian dollars). This purchase was recorded as a transaction between shareholders. The joint operation had previously been fully consolidated and a non-controlling interest had been recorded in equity and net earnings. Upon termination of the joint operation, the non-controlling interest relating to this joint operation was reduced to nil, and a retained earnings adjustment of $0.2 million was recorded to reflect the difference between the purchase price and the amount by which the non-controlling interest was adjusted.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. A summary of the financial statement impacts of all transactions with all related parties is as follows:

Years ended December 31,	2020	2019
Associate – Roska DBO		
Revenue	$ 558	$ 509
Purchases	-	-
Accounts receivable	1	4
Accounts payable	56	-
Joint Operation – Geogas		
Revenue	$ -	$ 62
Purchases	-	74
Accounts receivable	-	19
Accounts payable	-	-

All related party transactions are settled in cash.

SIGNIFICANT ACCOUNTING ESTIMATES

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Uncertainty about these assumptions and estimates could however result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have a significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. The input method of percentage-of-completion accounting provides a faithful depiction of the transfer of control to the customer, as the Company is able to recover costs incurred relating to the satisfaction of the associated performance obligation. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression, and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

Certain contracts also include aspects of variable consideration, such as liquidated damages on project delays. For these contracts, management must make estimations as to the likelihood of the variable consideration being recognized or constrained, based on the status of each project, the potential value of variable consideration, communication received from the customer, and other factors. Enerflex continues to monitor these factors. Changes in estimated cost or revenue associated with a project, including variable consideration, could result in material changes to revenue and gross margin recognized on certain projects.

Revenue Recognition – Performance Obligation Satisfied at a Point in Time

The Company reflects revenues relating to performance obligations satisfied at a point in time when control – indicated by transfer of the legal title, physical possession, significant risks and rewards of ownership, or any combination of these indicators – is transferred to the customer.

Provisions for Warranty

Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

Business Acquisitions

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company relies on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, projected cash flows, discount rates, and earnings multiples.

Property, Plant and Equipment and Rental Equipment

Property, plant and equipment and rental equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment and rental equipment is reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and rental equipment requires judgment and is based on currently available information. Property, plant and equipment and rental equipment is also reviewed for potential impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and rental equipment constitutes a change in accounting estimate and are applied prospectively.

Right-of-Use Asset and Lease Liability

The Company determines the right-of-use asset and lease liability for each lease upon commencement. In calculating the right-of-use asset and lease liability, the Company is required to determine a suitable discount rate in order to calculate the present value of the contractual payments for the right to use the underlying asset during the lease term. In addition, the Company is required to assess the term of the lease, including if the Company is reasonably certain to exercise options to extend the lease or terminate the lease. Discount rates and lease assumptions are reassessed on a periodic basis.

Net Investment in Finance Leases

In calculating the value of the Company's net investment in finance leases, the Company is required to determine the fair value of the underlying assets included in the finance lease transaction, or, if lower, the present value of the lease payments discounted using a market rate of interest. The fair value of the underlying assets should reflect the amount that the Company would otherwise recognize on a sale of those assets.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates, current economic conditions, and forecasts of future economic conditions. The impact of COVID-19 and negative economic factors surrounding the oil and gas industry on expected credit losses requires significant judgment, as it is not directly comparable with any recent similar events. Future economic conditions, especially around the oil and gas industry, may have a significant impact on the collectability of trade receivables from customers and the corresponding expected credit losses. Management has implemented additional monitoring processes in assessing the creditworthiness of customers and believes the current provision appropriately reflects the best estimate of its future expected credit losses. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

Impairment of Inventories

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of impairment recognized.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or group of assets exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model, which requires the Company to estimate future cash flows and use judgment to determine a suitable discount rate to calculate the present value of those cash flows.

Impairment of Goodwill

The Company tests goodwill for impairment at least on an annual basis, or when there is any indication that goodwill may be impaired. This requires an estimation of the value-in-use of the groups of cash generating units ("CGUs") to which the goodwill is allocated. Estimating the value-in-use requires an estimate of the expected future cash flows from each group of CGUs and use judgment to determine a suitable discount rate in order to calculate the present value of those cash flows. The methodology and assumptions used, as well as the results of the assessment performed are detailed in Note 14.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The basis for this estimate is management's five-year cash flow projections. The Company determined that the recoverability of deferred tax assets has not changed as a result of recent events, however management will continue to assess in response to changing economic conditions.

Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share entitlement. The determination of the share-based compensation expense for stock options and phantom share entitlement requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment, and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are described in Note 24.

Government Grants

In response to the COVID-19 pandemic and associated restrictions, including mandated quarantines, business closures, and travel restrictions, governments in certain jurisdictions in which the Company does business have established programs to assist companies and individuals through the period for which these restrictions are in place. During the second quarter of 2020, the Company qualified for government grants in a number of jurisdictions, most notably the Canada Emergency Wage Subsidy and the JobKeeper Payment program in Australia. The subsidies received, totaling $19.6 million for the year ended December 31, 2020, have 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. There are no unfulfilled conditions or other contingencies relating to government assistance that has been recognized.

NEW ACCOUNTING POLICIES

IFRS 3 Business Combinations ("IFRS 3")

Effective January 1, 2020, the definition of a business was amended under IFRS 3. Under the amended definition, to be considered a business an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present.

Under the prior definition, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business "if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes". The reference to such integration is now deleted from IFRS 3 in the proposed amendment and the assessment must be based on what has been acquired in its current state and condition.

This amendment will be applied prospectively to future acquisitions. While there are no immediate impacts resulting from this amendment, this change will likely result in more acquisitions being accounted for as asset acquisitions. Application of the change could also affect the accounting for disposal transactions.

The Company applied the amendments beginning January 1, 2020, with no changes to the Company's consolidated financial statements.

FUTURE ACCOUNTING PRONOUNCEMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that no pronouncements or amendments would be expected to have a material impact on future financial statements.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of management, have evaluated the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2020, using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on that evaluation, management has concluded that the design and operation of the Company's disclosure controls and procedures were adequate and effective as at December 31, 2020, to provide reasonable assurance that: a) material information relating to the Company and its consolidated subsidiaries would have been known to them and by others within those entities; and b) information required to be disclosed is recorded, processed, summarized, and reported within required time periods. They have also concluded that the design and operation of internal controls over financial reporting was adequate and effective as at December 31, 2020, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial reporting in accordance with IFRS.

There have been no significant changes in the design of the Company's ICFR during the twelve months ended December 31, 2020 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR. The Company recognizes that employees may be required to change how control activities are performed during offsite work arrangements resulting from the COVID-19 pandemic, and has ensured that control objectives are being met during this period.

While the Officers of the Company have designed the Company's disclosure controls and procedures and internal controls over financial reporting, they expect that these controls and procedures may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute, assurance that the objectives of the control system are met.

SUBSEQUENT EVENTS

Subsequent to December 31, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on April 1, 2021, to shareholders of record on March 11, 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.

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.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL POSITION

TO THE SHAREHOLDERS OF ENERFLEX LTD.

The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors of the Company. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect management's best estimates and judgments. Management is responsible for the accuracy, integrity, and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable, and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors, Ernst & Young LLP, to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Ernst & Young LLP on behalf of the shareholders in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

[signed] "Marc E. Rossiter"

Marc E. Rossiter
President, Chief Executive Officer, and Director

[signed] "Sanjay Bishnoi"

Sanjay Bishnoi
Senior Vice President, Chief Financial Officer

February 24, 2021

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENERFLEX LTD.

Opinion

We have audited the consolidated financial statements of Enerflex Ltd. and its subsidiaries (the Company), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition from the supply of engineered systems As described in Note 3q, 5, and 23 to the consolidated financial statements, revenues from the supply of engineered systems involving design, manufacture, installation and start-up are recognized using the percentage of completion method, based on total costs incurred as a proportion of expected total costs of the project. The revenue recognized on projects where the company has not fulfilled all performance obligations of the contract's scope of work as at December 31, 2020 requires management to make several estimates including expected margin to be earned on the contract and the estimated remaining costs to complete. Significant changes in estimated costs to complete could have a material effect on the amount of revenue recognized.	To test the estimate of revenue recognized based on the percentage of completion method, our audit procedures included, amongst others, the following: • We obtained an understanding of and evaluated the design of controls over the Company's process of accounting for percentage of completion revenue. For certain operating segments, we tested the operating effectiveness of controls over the percentage of completion revenue recognition process related to management's original total cost estimates and subsequent reforecasting of the total cost estimate. • Performed retrospective reviews of completed projects, performed inquiries with project managers on jobs that incurred a loss in the year, and identified monthly trending in order to assess the impact of significant margin changes. • Compared estimated costs to complete for in-progress jobs to actual costs incurred on similar completed projects and obtained supporting third-party vendor quotes or price sheets for a sample of estimated costs to complete for in-progress jobs
Estimating the recoverable amount of goodwill As described in Note 3f, 5, and 14 to the consolidated financial statements, the carrying value of $576 million of goodwill is assessed against the estimated recoverable amount of each operating segment, at least annually or at any time an indicator of impairment exists. Auditing management's annual goodwill impairment tests was complex, given the degree of judgment and subjectivity in evaluating management's estimates and assumptions in determining the recoverable amount of the operating segments. Significant assumptions included cash flow projections, revenue growth rate, earnings margins, and discount rate, which are affected by expectations about future market and economic conditions.	We involved our valuation specialists to evaluate the methodology, mathematical accuracy, and select key assumptions in management's estimation of the recoverable amounts, such as the discount rate used. In addition, to test other key assumptions, we performed, amongst others, the following procedures: • Compared assumptions incorporated into the estimated recoverable amount such as revenue forecasts and growth rates to publicly available data and historically realized results. • Obtained commodity price forecasts to identify trends compared to the industry outlook provided in management's forecast related to estimated bookings. • Performed a comparative analysis between historical and forecasted gross margins, and the current year actual results against the prior year forecast to evaluate any trends. • Performed a sensitivity analysis on the significant assumptions to evaluate the change in the calculated recoverable amount that would result from changes in the underlying inputs.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the consolidated financial statements and our auditor's report thereon, in the Annual Report

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis and the Annual Report prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gord Graham.

Ernst & Young LLP

Chartered Professional Accountants
Calgary, Canada
February 24, 2021

CONSOLIDATED
FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

($ Canadian thousands)	**December 31, 2020**	December 31, 2019[1]
Assets		
Current assets		
Cash and cash equivalents	**$ 95,676**	$ 96,255
Accounts receivable (Note 7)	**213,375**	384,021
Contract assets (Note 7)	**66,722**	130,392
Inventories (Note 8)	**212,251**	269,385
Current portion of finance leases receivable (Note 11)	**3,047**	446
Income taxes receivable	**23,718**	6,626
Derivative financial instruments (Note 28)	**491**	152
Other current assets	**9,047**	11,865
Total current assets	**624,327**	899,142
Property, plant and equipment (Note 9)	**102,636**	108,551
Rental equipment (Note 9)	**637,814**	642,095
Lease right-of-use assets (Note 10)	**54,184**	60,288
Finance leases receivable (Note 11)	**61,227**	454
Deferred tax assets (Note 20)	**48,216**	48,624
Other assets (Note 12)	**58,600**	25,868
Intangible assets (Note 13)	**16,544**	22,058
Goodwill (Note 14)	**576,028**	573,928
Total assets	**$ 2,179,576**	$ 2,381,008
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 15)	**$ 182,152**	$ 333,605
Provisions (Note 16)	**10,549**	18,250
Income taxes payable	**4,387**	8,074
Deferred revenues (Note 17)	**35,409**	89,409
Current portion of long-term debt (Note 18)	**40,000**	-
Current portion of lease liabilities (Note 19)	**14,693**	14,172
Derivative financial instruments (Note 28)	**371**	375
Total current liabilities	**287,561**	463,885
Long-term debt (Note 18)	**349,712**	430,487
Lease liabilities (Note 19)	**47,233**	52,828
Deferred tax liabilities (Note 20)	**87,408**	76,256
Other liabilities	**10,967**	14,765
Total liabilities	**$ 782,881**	$ 1,038,221
Shareholders' equity		
Share capital (Note 21)	**$ 375,524**	$ 375,524
Contributed surplus (Note 22)	**656,832**	655,107
Retained earnings	**301,040**	228,843
Accumulated other comprehensive income	**63,299**	81,779
Total shareholders' equity before non-controlling interest	**1,396,695**	1,341,253
Non-controlling interest (Note 32)	**-**	1,534
Total shareholders' equity and non-controlling interest	**1,396,695**	1,342,787
Total liabilities and shareholders' equity	**$ 2,179,576**	$ 2,381,008

See accompanying Notes to the consolidated financial statements, including guarantees, commitments, and contingencies (Note 31).

[1] *Certain December 31, 2019 balances have been reclassified. Refer to Note 2(b) for additional detail.*

CONSOLIDATED STATEMENTS OF EARNINGS

($ Canadian thousands, except per share amounts)	Years ended December 31, **2020**	2019
Revenue (Note 23)	**$ 1,217,052**	$ 2,045,422
Cost of goods sold	**918,873**	1,616,337
Gross margin	**298,179**	429,085
Selling and administrative expenses	**182,167**	197,177
Operating income	**116,012**	231,908
Gain on disposal of property, plant and equipment (Note 9)	**45**	302
Equity earnings from associate and joint venture	**1,995**	1,692
Earnings before finance costs and income taxes	**118,052**	233,902
Net finance costs (Note 26)	**22,493**	18,578
Earnings before income taxes	**95,559**	215,324
Income taxes (Note 20)	**7,302**	63,196
Net earnings	**$ 88,257**	$ 152,128
Net earnings attributable to:		
Controlling interest	**$ 88,080**	$ 151,647
Non-controlling interest	**177**	481
	$ 88,257	$ 152,128
Earnings per share – basic (Note 27)	**$ 0.98**	$ 1.70
Earnings per share – diluted (Note 27)	**$ 0.98**	$ 1.70
Weighted average number of shares – basic	**89,678,845**	89,500,829
Weighted average number of shares – diluted	**89,678,845**	89,709,745

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

($ Canadian thousands)	Years ended December 31, **2020**	2019
Net earnings	**$ 88,257**	$ 152,128
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	**545**	(815)
Gain on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**465**	905
Unrealized gain (loss) on translation of foreign denominated debt	**1,613**	3,845
Unrealized gain (loss) on translation of financial statements of foreign operations	**(21,323)**	(65,044)
Other comprehensive income (loss)	**$ (18,700)**	$ (61,109)
Total comprehensive income	**$ 69,557**	$ 91,019
Other comprehensive income (loss) attributable to:		
Controlling interest	**$ (18,480)**	$ (60,713)
Non-controlling interest	**(220)**	(396)
	$ (18,700)	$ (61,109)

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

($ Canadian thousands)		Years ended December 31, 2020		2019
Operating Activities				
Net earnings	**$**	**88,257**	$	152,128
Items not requiring cash and cash equivalents:				
Depreciation and amortization		**85,265**		86,559
Equity earnings from associate and joint venture		**(1,995)**		(1,692)
Deferred income taxes (Note 20)		**14,174**		31,476
Share-based compensation expense (Note 24)		**1,816**		7,749
Gain on disposal of property, plant and equipment (Note 9)		**(45)**		(302)
		187,472		275,918
Net change in non-cash working capital and other (Note 30)		**32,776**		(221,749)
Cash provided by operating activities	**$**	**220,248**	$	54,169
Investing Activities				
Additions to:				
Property, plant and equipment (Note 9)	**$**	**(9,874)**	$	(46,322)
Rental equipment (Note 9)		**(123,879)**		(217,068)
Proceeds on disposal of:				
Property, plant and equipment (Note 9)		**115**		9,205
Rental equipment (Note 9)		**3,121**		4,454
Change in other assets		**(7,242)**		26,911
Cash used in investing activities	**$**	**(137,759)**	$	(222,820)
Financing Activities				
Repayment of long-term debt (Note 30)	**$**	**(41,697)**	$	(15,748)
Lease liability principal repayment (Note 19)		**(12,770)**		(12,551)
Lease interest (Note 19)		**(3,371)**		(2,586)
Dividends		**(24,212)**		(37,548)
Stock option exercises		**-**		7,453
Cash used in financing activities	**$**	**(82,050)**	$	(60,980)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$**	**(1,018)**	$	(978)
Decrease in cash and cash equivalents		**(579)**		(230,609)
Cash and cash equivalents, beginning of period		**96,255**		326,864
Cash and cash equivalents, end of period	**$**	**95,676**	$	96,255

See accompanying Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2019	$ 366,120	$ 654,324	$ 118,134	$ 143,563	$ (1,071)	$ 142,492	$ 1,281,070	$ 1,449	$ 1,282,519
IFRS 16 opening retained earnings adjustment	-	-	(2,429)	-	-	-	(2,429)	-	(2,429)
Net earnings	-	-	151,647	-	-	-	151,647	481	152,128
Other comprehensive income (loss)	-	-	-	(60,803)	90	(60,713)	(60,713)	(396)	(61,109)
Effect of stock option plans	9,404	783	-	-	-	-	10,187	-	10,187
Dividends	-	-	(38,509)	-	-	-	(38,509)	-	(38,509)
At December 31, 2019	$ 375,524	$ 655,107	$ 228,843	$ 82,760	$ (981)	$ 81,779	$ 1,341,253	$ 1,534	$ 1,342,787
Net earnings	-	-	88,080	-	-	-	88,080	177	88,257
Other comprehensive income (loss)	-	-	-	(19,490)	1,010	(18,480)	(18,480)	(220)	(18,700)
Purchase of non-controlling interest (Note 32)	-	-	(189)	-	-	-	(189)	(1,491)	(1,680)
Effect of stock option plans	-	1,725	-	-	-	-	1,725	-	1,725
Dividends	-	-	(15,694)	-	-	-	(15,694)	-	(15,694)
At December 31, 2020	**$ 375,524**	**$ 656,832**	**$ 301,040**	**$ 63,270**	**$ 29**	**$ 63,299**	**$ 1,396,695**	**$ -**	**$ 1,396,695**

See accompanying Notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. NATURE AND DESCRIPTION OF THE COMPANY

Enerflex Ltd. ("Enerflex" or "the Company") is a single-source supplier of natural gas compression, oil and gas processing, refrigeration systems, and electric power generation equipment – plus related in-house engineering and mechanical services expertise. The Company's broad in-house resources provide the capability to engineer, design, manufacture, construct, commission, service, and operate hydrocarbon handling systems. Enerflex's expertise encompasses field production facilities, compression and natural gas processing plants, gas-lift compression, refrigeration systems, and electric power solutions serving the natural gas production industry.

Headquartered in Calgary, Alberta, Canada, the registered office is located at 904, 1331 Macleod Trail SE, Calgary, Canada. Enerflex has approximately 2,000 employees worldwide. Enerflex, its subsidiaries, interests in associates, and joint operations, operate in Canada, the United States of America ("USA"), Argentina, Bolivia, Brazil, Colombia, Mexico, the United Kingdom, Bahrain, Kuwait, Oman, the United Arab Emirates ("UAE"), Australia, New Zealand, Indonesia, Malaysia, and Thailand. Enerflex operates three business segments: USA, Rest of World, and Canada.

The following table represents material subsidiaries of the Company:

Name	Jurisdiction of Incorporation	Ownership	Operating Segment
Enerflex Ltd.	Canada	Public Shareholders	Canada
Enerflex Energy Systems Inc.	Delaware, USA	100.0 percent	USA
Enerflex Middle East LLC	Oman	70.0 percent[1]	Rest of World
Enerflex Middle East SPC	Bahrain	100.0 percent	Rest of World

[1] Enerflex indirectly owns 100.0 percent of Enerflex Middle East LLC.

NOTE 2. BASIS OF PRESENTATION

(a) Statement of Compliance

These 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 February 24, 2021. Certain prior year amounts have been reclassified to conform with the current period's presentation.

(b) Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis except as detailed in the accounting policies disclosed in Note 3. The accounting policies described in Note 3 and Note 4 have been applied consistently to all periods presented in these consolidated financial statements. Certain immaterial prior period amounts have been reclassified between contract assets and deferred revenues to better align with contractual terms for these projects. Contract assets and deferred revenues as at December 31, 2019 have been reduced by $53,498 from balances disclosed in the annual consolidated financial statements.

(c) Functional Currency and Presentation Currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. Transactions of the Company's individual entities are recorded in their own functional currency based on the primary economic environment in which it operates.

(d) Use of Estimates and Judgment

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Accordingly, actual results may differ from estimated amounts as future confirming events occur. Significant estimates and judgment used in the preparation of the financial statements are described in Note 5.

(e) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition and continue to be consolidated until the date that control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. All intra-group balances, income and expenses, and unrealized gains and losses resulting from intra-group transactions are eliminated in full.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 45 percent investment in Roska DBO Inc. ("Roska DBO") and its 65 percent investment in a joint venture in Brazil. Under the equity method, the investment is carried on the consolidated statements of financial position at cost plus post acquisition changes in the Company's share of net assets of the associate or joint venture.

The consolidated statements of earnings reflect the Company's share of the results of operations of associates and joint ventures. Unrealized gains and losses resulting from transactions between the Company and associates are eliminated to the extent of the interest in the associate or joint venture.

The Company's share of profits from associates and joint ventures is shown on the face of the consolidated statements of earnings. This is the profit attributable to equity holders of the associate and joint venture partners and, therefore, is profit after tax and non-controlling interests in the subsidiaries of the associates and joint ventures.

(b) Foreign Currency Translation

In the accounts of individual subsidiaries, transactions in currencies other than the Company's functional currency are recorded at the prevailing rate of exchange at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated using the rates of exchange at the date the fair value was determined.

The assets and liabilities on the statements of financial position of foreign subsidiaries are translated into Canadian dollars at the rates of exchange prevailing at the reporting date. The statements of earnings of foreign subsidiaries are translated at average exchange rates for the reporting period. Exchange differences arising on the translation of net assets are taken to accumulated other comprehensive income.

All foreign exchange gains and losses are taken to the consolidated statements of earnings with the exception of exchange differences arising on monetary assets and liabilities that form part of the Company's net investment in subsidiaries. These are taken directly to other comprehensive income until the disposal of the foreign subsidiary at which time the unrealized gain or loss is recognized in the consolidated statements of earnings.

On the disposal of a foreign subsidiary, accumulated exchange differences are recognized in the consolidated statements of earnings as a component of the gain or loss on disposal.

(c) Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value on the date of the acquisition. Acquisition costs incurred are expensed and

included in selling and administrative expenses, except for those associated with the issuance of debt, which are included in the initial carrying amount of the liability.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed.

(d) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost comprises the purchase price or construction cost and any costs directly attributable to making the asset capable of operating as intended. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets and commences when the assets are ready for intended use.

Asset Class	Estimated Useful Life Range
Buildings	5 to 20 years
Equipment	2 to 20 years

Major renewals and improvements are capitalized when they are expected to provide future economic benefit. When significant components of property, plant and equipment are required to be replaced at intervals, the Company derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. No depreciation is charged on land or assets under construction. Repairs and maintenance costs are charged to operations as incurred.

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of property, plant and equipment is included in the consolidated statements of earnings when the item is derecognized.

Each asset's estimated useful life, residual value, and method of depreciation are reviewed and adjusted, if appropriate, at each year end, or when factors and circumstances suggest a different useful life for the asset.

(e) Rental Equipment

Rental equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are generally between 5 and 20 years.

When, under the terms of a rental contract, the Company is responsible for major maintenance and overhauls, the actual overhaul cost is capitalized and depreciated over the estimated useful life of the overhaul, generally between 2 and 5 years. Repairs and maintenance costs are charged to operations as incurred.

Each asset's estimated useful life, residual value, and method of depreciation are reviewed and adjusted, if appropriate, at each year end, or when factors and circumstances suggest a different useful life for the asset.

(f) Goodwill

Goodwill arising on an acquisition of a business is initially measured at cost, being the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill allocated to a group of cash generating units ("CGUs") is reviewed for impairment annually, or when there is an indication that a related group of CGUs may be impaired. Impairment is determined by assessing the recoverable amount of the group of CGUs to which the goodwill relates. Where the recoverable amount of the group of CGUs is less than the carrying amount of the CGUs and related goodwill, an impairment loss is recognized in the consolidated statements of earnings. Impairment losses on goodwill are not reversed.

(g) Intangible Assets

Intangible assets are carried at cost less accumulated amortization and any accumulated impairment losses. Intangible assets with a finite life are amortized on a straight-line basis over management's best estimate of their expected useful lives. The amortization charge is included in selling and administrative expenses in the consolidated statements of earnings. The expected useful lives and amortization method are reviewed on an annual basis with any change in the useful life or pattern of consumption adjusted at year end. Intangible assets are tested for impairment whenever there is an indication that the asset may be impaired.

Acquired identifiable intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives. Customer relationships, software, and other intangible assets have an estimated useful life range of 3 to 8 years.

(h) Impairment of Non-Financial Assets (excluding Goodwill)

At least annually, the Company reviews the carrying amounts of its tangible and intangible assets with finite lives to assess whether there is an indication that those assets may be impaired. If any such indication exists, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value-in-use. In assessing its value-in-use, the estimated future cash flows attributable to the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. A corresponding impairment loss is recognized in the consolidated statements of earnings.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Any impairment reversal is recognized in the consolidated statements of earnings.

(i) Inventories

Inventories are valued at the lower of cost and net realizable value. Serialized inventory is determined on a first-in first-out basis. Non-serialized inventory is determined based on a weighted average cost.

Cost of equipment, repair and distribution parts, and direct materials includes purchase cost and costs incurred in bringing each product to its present location and condition.

Cost of work-in-process includes cost of direct materials, labour, and an allocation of overheads, based on normal operating capacity.

Cost of inventories includes the transfer from accumulated other comprehensive income of gains and losses on qualifying cash flow hedges in respect of the purchase of inventory.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Inventories are written down to net realizable value when the cost of inventories is estimated to be unrecoverable due to obsolescence, damage, or declining selling prices. Inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. When circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in selling prices, the amount of the write down previously recorded is reversed.

(j) Trade Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any amounts estimated to be uncollectible. The Company calculates an expected credit loss based on historical experience of bad debts and specific provisions created when there is objective evidence that the collection of the full amount of a receivable is no longer probable under the terms of the original invoice. The amount of this allowance represents management's best estimate of expected credit losses. Trade receivables are derecognized when they are assessed as uncollectible.

(k) Cash

Cash includes cash and cash equivalents, which are defined as highly liquid investments with original maturities of three months or less.

(l) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(m) Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(n) Employee Future Benefits

The Company sponsors various defined contribution pension plans, which cover substantially all employees and are funded in accordance with applicable plan and regulatory requirements. Regular contributions are made by the Company to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. The actual cost of providing benefits through defined contribution pension plans is charged to earnings in the period in respect of which contributions become payable.

(o) Share-Based Payments

Equity-Settled Share-Based Payments

The Company offers a Stock Option Plan to key employees, measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 24.

The fair value of equity-settled share-based payments is expensed over a five-year vesting period with a corresponding increase in equity. Stock options have a seven-year expiry and are exercisable at the designated common share price, which is determined by the average of the market price of the Company's shares on the five days preceding the date of the grant. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest.

Cash-Settled Share-Based Payments

The Company offers Deferred Share Unit ("DSU"), Performance Share Unit ("PSU"), Restricted Share Unit ("RSU"), and Cash Performance Target ("CPT") plans to certain employees. The Company also offers the DSU plan to non-employee directors. For each cash-settled share-based payment plan, a liability is recognized at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statements of earnings.

The Company also offers a Phantom Share Entitlement ("PSE") plan to certain employees of affiliates located in Australia and the UAE. PSEs are measured at the fair value of the equity instrument at the grant date and expensed over a five-year vesting period and expire on the seventh anniversary. The exercise price of each PSE equals the average of the market price of the Company's shares on the five days preceding the date of the grant. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with changes in fair value recognized in the consolidated statements of earnings. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

(p) Leases

Company as a Leasee

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- The contract involves the use of an identified asset, either explicitly or implicitly, and whether the supplier has a substantive substitution right for the asset;
- The Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period; and
- The Company has the right to direct the use of the identified asset.

The Company determines if a contractual arrangement is a lease at the inception of the contract term. The Company has identified leases for the following asset types: land and buildings (including manufacturing facilities, office space, and rental accommodations) and equipment (including vehicles, office equipment, and shop equipment). The Company recognizes a right-of-use asset and a lease liability to reflect the benefit the Company obtains from the underlying asset in the lease and the requirement to pay the amounts included in the lease contract, respectively.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to decommission the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method over the lesser of lease term or the useful life of the underlying asset, where appropriate.

The lease liability is initially measured at the present value of remaining lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability include fixed payments, variable lease payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee, and amounts owing under purchase or termination options, if the Company is reasonably certain to exercise these options. If the lease contains an extension option that the Company is reasonably certain to exercise, all payments in the renewal period are also included in determining the lease liability.

The lease liability is measured at amortized cost using the effective interest method. The amount of the liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension, or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying value of the right-of-use asset, or is recorded on the consolidated statements of earnings if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term and low-value leases. Lease payments associated with these leases will be recognized as an expense on a straight-line basis over the lease term. Certain leases include both lease and non-lease components, which are generally accounted for separately. For certain equipment leases, the Company applies a portfolio approach to effectively account for the lease right-of-use assets and lease liabilities.

Company as a Leasor

Leases in which the Company is the lessor are assessed upon commencement and are classified as either an operating lease or a finance lease. An operating lease does not transfer substantially all the risks and rewards of the leased asset to the customer. Lease payments from operating leases are recorded as income on a straight-line basis over the life of the lease. A finance lease exists when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee.

Amounts due from lessees under finance leases are recorded as finance lease receivables. Finance leases are initially recognized at amounts equal to the net investment in the lease, determined to be the fair value of the underlying asset, or, if lower, the present value of the lease payments discounted using a market rate of interest. Payments that are part of the leasing arrangement are divided between a reduction in the finance lease receivable and finance lease income. Finance lease income is recognized so as to produce a constant rate of return on the Company's investment in the lease and is included in revenues.

(q) Revenue Recognition

Revenue is recognized as the Company satisfies its performance obligations by transferring promised goods or services to customers, regardless of when payment is received. Revenue is measured at the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties, and may include fixed amounts, variable amounts, or both. Variable amounts are recorded using either the "expected value approach" or the "most likely outcome approach", as determined upon initial recognition of the contract, and are reassessed at each reporting period. The expected value approach measures variable consideration by probability weighting all the potential outcomes. The most likely outcome approach measures variable consideration as management's best estimate of the variable component. In estimating variable consideration, the Company reviews any potential for returns, refunds, and other similar obligations. For contracts containing multiple performance obligations, the amount of consideration to which the Company expects to be entitled is allocated to individual performance obligations proportionately based on the stand-alone selling price.

Engineered Systems

Revenue from the supply of equipment systems – contracts typically involving engineering, design, manufacture, installation, and start-up of equipment – is accounted for as Engineered Systems revenue. Such revenue is recognized on a percentage-of-completion basis proportionate to the costs incurred in the construction of the project. At the completion of the contract, any remaining profit on the contract is recognized as revenue. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately. Revenue from Engineered Systems includes the supply of compression, processing, and electric power equipment, as well as retrofit work and construction on integrated turnkey projects. The Company also provides a warranty on manufactured equipment as part of the standard terms and conditions of the contract. No options are provided for the customer to purchase a warranty separately.

For Engineered Systems contracts, the Company generally requires customers to pay based on milestones as manufacturing progresses. These milestones are generally structured to keep the Company cash flow positive. Contracts are also generally structured to ensure the Company is made whole for costs incurred in the event of cancellation of a contract.

Service

Service revenues include the sales of parts and equipment, as well as the servicing and maintenance of equipment. For the sale of parts and equipment, revenue is recognized when the transfer of control passes, which is typically at the point of shipping. For servicing and maintenance of equipment, revenue is recognized on a straight-line basis based on performance of the contracted-upon service.

Revenue from long-term service contracts is recognized on a stage of completion basis proportionate to the service work that has been performed based on parts and labour service provided. Payments are typically required on a monthly basis or as work is performed, with no unusual payment terms. At the completion of the contract, any remaining profit on the contract is recognized as revenue. Any expected losses on such projects are charged to operations when determined. Long-term service contracts include scheduled milestone maintenance, corrective or crash maintenance, the supply of parts, and the operation of equipment.

Rentals

Revenue from equipment rentals is recognized in accordance with the terms of the relevant agreement with the customer on a straight-line basis over the term of the agreement. Payments are typically required on a monthly basis with no unusual payment terms. Certain rental contracts contain an option for the customer to purchase the equipment at the end of the rental period. Should the customer exercise this option to purchase, revenue from the sale of the equipment is recognized directly in the consolidated statements of earnings.

Revenue from contracts that have been classified as finance leases is recorded as Rentals revenue. At the commencement of a finance lease, the Company recognizes revenue and a finance lease receivable equal to the net investment in the lease. Finance income is recognized in Rentals revenue reflecting a constant periodic rate of return on the Company's net investment in the lease over the lease term.

Practical Expedients

The Company has elected to use the practical expedients in IFRS 15 *Revenue from contracts with customers* paragraphs 63 and 94 with regards to the existence of a significant financing component in the contract and incremental costs of obtaining a contract,

respectively. For the years ended December 31, 2020 and 2019 the Company had no contracts with a significant financing component that is considered material. Incremental costs of obtaining a contract predominantly relate to commission costs on Engineered Systems projects, which are typically completed within one year. Accordingly, the Company did not recognize commission costs incurred as an asset in the consolidated statements of financial position.

(r) Financial Instruments

Financial instruments are measured at fair value on initial recognition of the instrument, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. For the purposes of measuring financial assets after initial recognition, the Company classifies financial assets as either amortized cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"), based on the contractual cash flow characteristics and the Company's business model for managing the financial asset. For the purposes of measuring financial liabilities after initial recognition, the Company classifies all financial liabilities as amortized cost, except certain financial liabilities, such as derivatives, which are classified as FVTPL.

Preferred shares included as long-term receivables in Other assets were recorded at fair value at inception and are subsequently measured at amortized cost.

The Company primarily applies the market approach for recurring fair value measurements. Three levels of inputs may be used to measure fair value:

- Level 1: Fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an on-going basis;
- Level 2: Fair value measurements are those derived from inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: Fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs). In these instances, internally developed methodologies are used to determine fair value.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability and may affect placement within.

The Company has made the following classifications:

- Cash and cash equivalents are measured at fair value through profit or loss. Gains and losses resulting from the periodic revaluation are recorded in the consolidated statements of earnings;
- Accounts receivable and preferred shares are recorded at amortized cost using the effective interest rate method; and
- Accounts payable, accrued liabilities, and long-term debt are recorded at amortized cost using the effective interest rate method.

Transaction costs are expensed as incurred for financial instruments classified or designated as FVTPL. Transaction costs related to other financial liabilities are added to the value of the instrument at acquisition and taken into the consolidated statements of earnings using the effective interest rate method.

(s) Derivative Financial Instruments and Hedge Accounting

The Company formally documents its risk management objectives and strategies to manage exposures to fluctuations in foreign currency exchange rates and interest rates. The risk management policy permits the use of certain derivative financial instruments, including forward foreign exchange contracts and interest rate swaps, to manage these fluctuations. The Company does not enter into derivative financial agreements for speculative purposes.

Derivative financial instruments are measured at their fair value upon initial recognition and are remeasured to their fair value at the end of each reporting period. The fair value of quoted derivatives is equal to their positive or negative market value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company elected to apply hedge accounting for foreign exchange forward contracts for anticipated transactions. These are designated as cash flow hedges. For cash flow hedges, fair value changes of the effective portion of the hedging instrument are recognized in accumulated other comprehensive income, net of taxes. The ineffective portion of the fair value changes is recognized in the consolidated statements of earnings. Amounts charged to accumulated other comprehensive income are reclassified to the consolidated statements of earnings when the hedged transaction affects the consolidated statements of earnings.

The Company's U.S. dollar denominated long-term debt has been designated as a hedge of net investment in self-sustaining foreign operations. As a result, a portion of unrealized foreign exchange gains and losses on the U.S. dollar denominated long-term debt are included in the cumulative translation account in other comprehensive income.

On an ongoing basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

(t) Income Taxes

Income tax expense represents the sum of current income tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. Taxable earnings differ from earnings as reported in the consolidated statements of earnings as it excludes temporary and permanent differences. The Company's current tax assets and liabilities are calculated by using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on all temporary differences at the reporting date based on the difference between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future; and
- Deferred income tax assets are recognized only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax rates and tax laws enacted or substantively enacted at the reporting date.

Current and deferred income taxes are charged or credited directly to equity if it relates to items that are credited or charged to equity in the same period. Otherwise, income tax is recognized in the consolidated statements of earnings.

In accordance with IAS 12 *Income taxes*, where an entity's tax return is prepared in a currency other than its functional currency, changes in the exchange rate between the two currencies create temporary differences with respect to the valuation of non-monetary assets and liabilities. As a result, deferred tax is recognized in the consolidated statements of earnings and the condolidated statement of financial position.

(u) Earnings Per Share

Basic earnings per share is calculated by dividing the net earnings for the period by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding for dilutive common shares related to the Company's equity share-based compensation plan.

(v) Finance Costs and Income

Finance income comprises interest income on funds invested and finance income from leases. Finance income is recognized as it accrues in profit or loss, using the effective interest rate method.

Finance costs comprise interest expense on borrowings and interest incurred on lease liabilities.

(w) Government Grants

Government grants are 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. Government grants are recognized when there is reasonable assurance that the grant will be received, and all related conditions are complied with.

NOTE 4. CHANGES IN ACCOUNTING POLICIES

IFRS 3 Business Combinations ("IFRS 3")

Effective January 1, 2020, the definition of a business was amended under IFRS 3. Under the amended definition, to be considered a business an acquisition must include an input and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present.

Under the prior definition, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business "*if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes*". The reference to such integration is now deleted from IFRS 3 in the proposed amendment and the assessment must be based on what has been acquired in its current state and condition.

This amendment will be applied prospectively to future acquisitions. While there are no immediate impacts resulting from this amendment, this change will likely result in more acquisitions being accounted for as asset acquisitions. Application of the change could also affect the accounting for disposal transactions.

The Company applied the amendments beginning January 1, 2020, with no changes to the Company's consolidated financial statements.

NOTE 5. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENT

The timely preparation of financial statements requires that management make estimates and assumptions and use judgment. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Uncertainty about these assumptions and estimates could however result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have a significant effect on the amounts recognized in the consolidated financial statements:

Revenue Recognition – Performance Obligation Satisfied Over Time

The Company reflects revenues relating to performance obligations satisfied over time using the percentage-of-completion approach of accounting. The Company uses the input method of percentage-of-completion accounting, whereby actual input costs as a percentage of estimated total costs is used as the basis for determining the extent to which performance obligations are satisfied. The input method of percentage-of-completion accounting provides a faithful depiction of the transfer of control to the customer, as the Company is able to recover costs incurred relating to the satisfaction of the associated performance obligation. This approach to revenue recognition requires management to make a number of estimates and assumptions surrounding the expected profitability of the contract, the estimated degree of completion based on cost progression, and other detailed factors. Although these factors are routinely reviewed as part of the project management process, changes in these estimates or assumptions could lead to changes in the revenues recognized in a given period.

Certain contracts also include aspects of variable consideration, such as liquidated damages on project delays. For these contracts, management must make estimations as to the likelihood of the variable consideration being recognized or constrained, based on the status of each project, the potential value of variable consideration, communication received from the customer, and other factors. Enerflex continues to monitor these factors. Changes in estimated cost or revenue associated with a project, including variable consideration, could result in material changes to revenue and gross margin recognized on certain projects.

Revenue Recognition – Performance Obligation Satisfied at a Point in Time

The Company reflects revenues relating to performance obligations satisfied at a point in time when control – indicated by transfer of the legal title, physical possession, significant risks and rewards of ownership, or any combination of these indicators – is transferred to the customer.

Provisions for Warranty

Provisions set aside for warranty exposures either relate to amounts provided systematically based on historical experience under contractual warranty obligations or specific provisions created in respect of individual customer issues undergoing commercial resolution and negotiation. Amounts set aside represent management's best estimate of the likely settlement and the timing of any resolution with the relevant customer.

Business Acquisitions

In a business acquisition, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment and intangible assets acquired, the Company relies on independent third-party valuators. The determination of these fair values involves a variety of assumptions, including revenue growth rates, projected cash flows, discount rates, and earnings multiples.

Property, Plant and Equipment and Rental Equipment

Property, plant and equipment and rental equipment is stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of property, plant and equipment and rental equipment is reviewed on an annual basis. Assessing the reasonableness of the estimated useful lives of property, plant and equipment and rental equipment requires judgment and is based on currently available information. Property, plant and equipment and rental equipment is also reviewed for potential impairment on an annual basis or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Changes in circumstances, such as technological advances and changes to business strategy can result in actual useful lives differing significantly from estimates. The assumptions used, including rates and methodologies, are reviewed on an ongoing basis to ensure they continue to be appropriate. Revisions to the estimated useful lives of property, plant and equipment and rental equipment constitutes a change in accounting estimate and are applied prospectively.

Right-of-Use Asset and Lease Liability

The Company determines the right-of-use asset and lease liability for each lease upon commencement. In calculating the right-of-use asset and lease liability, the Company is required to determine a suitable discount rate in order to calculate the present value of the contractual payments for the right to use the underlying asset during the lease term. In addition, the Company is required to assess the term of the lease, including if the Company is reasonably certain to exercise options to extend the lease or terminate the lease. Discount rates and lease assumptions are reassessed on a periodic basis.

Net Investment in Finance Leases

In calculating the value of the Company's net investment in finance leases, the Company is required to determine the fair value of the underlying assets included in the finance lease transaction, or, if lower, the present value of the lease payments discounted using a market rate of interest. The fair value of the underlying assets should reflect the amount that the Company would otherwise recognize on a sale of those assets.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the full lifetime expected credit losses for trade receivables. The Company determines allowances based on management's best estimate of future expected credit losses, considering historical default rates,

current economic conditions, and forecasts of future economic conditions. The impact of COVID-19 and negative economic factors surrounding the oil and gas industry on expected credit losses requires significant judgment, as it is not directly comparable with any recent similar events. Future economic conditions, especially around the oil and gas industry, may have a significant impact on the collectability of trade receivables from customers and the corresponding expected credit losses. Management has implemented additional monitoring processes in assessing the creditworthiness of customers and believes the current provision appropriately reflects the best estimate of its future expected credit losses. Significant or unanticipated changes in economic conditions could impact the magnitude of future expected credit losses.

Impairment of Inventories

The Company regularly reviews the nature and quantities of inventory on hand and evaluates the net realizable value of items based on historical usage patterns, known changes to equipment or processes, and customer demand for specific products. Significant or unanticipated changes in business conditions could impact the magnitude and timing of impairment recognized.

Impairment of Non-Financial Assets

Impairment exists when the carrying value of an asset or group of assets exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value-in-use calculation is based on a discounted cash flow model, which requires the Company to estimate future cash flows and use judgment to determine a suitable discount rate to calculate the present value of those cash flows.

Impairment of Goodwill

The Company tests goodwill for impairment at least on an annual basis, or when there is any indication that goodwill may be impaired. This requires an estimation of the value-in-use of the groups of CGUs to which the goodwill is allocated. Estimating the value-in-use requires an estimate of the expected future cash flows from each group of CGUs and use judgment to determine a suitable discount rate in order to calculate the present value of those cash flows. The methodology and assumptions used, as well as the results of the assessment performed are detailed in Note 14.

Income Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to taxable income. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. The basis for this estimate is management's five-year cash flow projections. The Company determined that the recoverability of deferred tax assets has not changed as a result of recent events, however management will continue to assess in response to changing economic conditions.

Share-Based Compensation

The Company employs the fair value method of accounting for stock options and phantom share entitlement. The determination of the share-based compensation expense for stock options and phantom share entitlement requires the use of estimates and assumptions based on exercise prices, market conditions, vesting criteria, length of employment, and past experiences of the Company. Changes in these estimates and future events could alter the determination of the provision for such compensation. Details concerning the assumptions used are described in Note 24.

Government Grants

In response to the COVID-19 pandemic and associated restrictions, including mandated quarantines, business closures, and travel restrictions, governments in certain jurisdictions in which the Company does business have established programs to assist companies

and individuals through the period for which these restrictions are in place. During the second quarter of 2020, the Company qualified for government grants in a number of jurisdictions, most notably the Canada Emergency Wage Subsidy and the JobKeeper Payment program in Australia. The subsidies received, totaling $19.6 million for the year ended December 31, 2020, have 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. There are no unfulfilled conditions or other contingencies relating to government assistance that has been recognized.

NOTE 6. NEW POLICIES, STANDARDS, INTERPRETATIONS, AND AMENDMENTS

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that no pronouncements or amendments would be expected to have a material impact on future financial statements.

NOTE 7. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

December 31,		**2020**		2019
Trade receivables	**$**	**194,777**	$	373,480
Less: allowance for doubtful accounts[1]		**(11,439)**		(2,144)
Trade receivables, net	**$**	**183,338**	$	371,336
Other receivables		**30,037**		12,685
Total accounts receivable	**$**	**213,375**	$	384,021

[1] During the third quarter of 2020, management identified certain receivable balances in the Rest of World segment that may be at higher risk of credit loss, leading to an increase in the allowance for doubtful accounts provision at September 30, 2020. The value of the provision relating to these receivables at December 31, 2020 represents only the outstanding amounts owed to Enerflex, as the total value of the associated contract was recognized and largely collected prior to 2020.

Aging of trade receivables:

December 31,		**2020**		2019
Current to 90 days	**$**	**152,285**	$	321,058
Over 90 days		**42,492**		52,422
	$	**194,777**	$	373,480

Movement in allowance for doubtful accounts:

December 31,		**2020**		2019
Balance, January 1	**$**	**2,144**	$	992
Impairment provision additions on receivables		**21,072**		2,162
Amounts settled and derecognized during the year		**(11,071)**		(951)
Currency translation effects		**(706)**		(59)
Closing balance	**$**	**11,439**	$	2,144

Movement in contract assets:

December 31,		2020		2019
Balance, January 1	**$**	**130,392**	$	158,027
Unbilled revenue recognized		**238,300**		645,276
Amounts billed		**(281,145)**		(666,896)
Amounts transferred to other assets		**(26,625)**		-
Currency translation effects		**5,800**		(6,015)
Closing balance	**$**	**66,722**	$	130,392

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

NOTE 8. INVENTORIES

Inventories consisted of the following:

December 31,		2020		2019
Direct materials	**$**	**119,342**	$	182,692
Repair and distribution parts		**52,125**		42,540
Work-in-process		**25,185**		33,403
Equipment		**15,599**		10,750
Total inventories	**$**	**212,251**	$	269,385

The amount of inventory and overhead costs recognized as an expense and included in cost of goods during 2020 was $918.9 million (December 31, 2019 – $1,616.3 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the consolidated statements of earnings and included in cost of goods sold for December 31, 2020 was $5.4 million (December 31, 2019 – $5.9 million).

NOTE 9. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment[1]
Cost						
January 1, 2020	$ 18,756	$ 105,130	$ 63,386	$ 10,304	$ 197,576	$ 917,204
Additions	-	198	1,176	8,500	9,874	123,879
Reclassification	-	9,213	3,324	(14,956)	(2,419)	-
Disposals	-	(76)	(3,120)	-	(3,196)	(119,251)
Currency translation effects	(285)	(2,286)	(922)	202	(3,291)	(40,148)
December 31, 2020	**$ 18,471**	**$ 112,179**	**$ 63,844**	**$ 4,050**	**$ 198,544**	**$ 881,684**
Accumulated depreciation						
January 1, 2020	$ -	$ (39,262)	$ (49,763)	$ -	$ (89,025)	$ (275,109)
Depreciation charge	-	(5,945)	(5,558)	-	(11,503)	(51,360)
Impairment	-	-	-	-	-	(2,607)
Disposals	-	71	3,055	-	3,126	67,054
Currency translation effects	-	802	692	-	1,494	18,152
December 31, 2020	**$ -**	**$ (44,334)**	**$ (51,574)**	**$ -**	**$ (95,908)**	**$ (243,870)**
Net book value – December 31, 2020	**$ 18,471**	**$ 67,845**	**$ 12,270**	**$ 4,050**	**$ 102,636**	**$ 637,814**

[1] *Disposals of rental equipment includes certain assets that were included in a finance lease transaction in the fourth quarter of 2020. As required, the net book value of these assets have been derecognized from rental equipment at December 31, 2020. Refer to Note 11 for further details on the finance lease transaction.*

	Land	Building	Equipment	Assets under construction	Total property, plant and equipment	Rental equipment
Cost						
January 1, 2019	$ 23,034	$ 88,668	$ 59,685	$ 11,641	$ 183,028	$ 798,999
Additions	-	1,557	1,283	43,482	46,322	217,068
Reclassification	-	33,403	8,167	(44,338)	(2,768)	-
Disposals	(3,531)	(14,663)	(3,898)	-	(22,092)	(51,811)
Currency translation effects	(747)	(3,835)	(1,851)	(481)	(6,914)	(47,052)
December 31, 2019	$ 18,756	$ 105,130	$ 63,386	$ 10,304	$ 197,576	$ 917,204
Accumulated depreciation						
January 1, 2019	$ -	$ (45,216)	$ (49,106)	$ -	$ (94,322)	$ (260,510)
Depreciation charge	-	(5,039)	(5,740)	-	(10,779)	(52,916)
Impairment	-	-	-	-	-	(26,414)
Disposals	-	9,441	3,748	-	13,189	45,969
Currency translation effects	-	1,552	1,335	-	2,887	18,762
December 31, 2019	$ -	$ (39,262)	$ (49,763)	$ -	$ (89,025)	$ (275,109)
Net book value – December 31, 2019	$ 18,756	$ 65,868	$ 13,623	$ 10,304	$ 108,551	$ 642,095

Depreciation of property, plant and equipment and rental equipment included in earnings for year ended December 31, 2020 was $62.9 million (December 31, 2019 – $63.7 million), of which $59.2 million was included in cost of goods sold (December 31, 2019 – $60.1 million) and $3.7 million was included in selling and administrative expenses (December 31, 2019 – $3.6 million).

Impairment of rental equipment included in earnings for the year ended December 31, 2020 was $2.6 million (December 31, 2019 – $26.4 million).

NOTE 10. LEASE RIGHT-OF-USE ASSETS

		Land and buildings		Equipment		Total lease right-of-use assets
Cost						
January 1, 2020	$	55,463	$	17,104	$	72,567
Additions		3,923		4,389		8,312
Disposal		(3,069)		(1,821)		(4,890)
Currency translation effects		(75)		(312)		(387)
December 31, 2020	**$**	**56,242**	**$**	**19,360**	**$**	**75,602**
Accumulated depreciation						
January 1, 2020	$	(8,028)	$	(4,251)	$	(12,279)
Depreciation charge		(8,106)		(5,601)		(13,707)
Disposal		2,513		1,779		4,292
Currency translation effects		94		182		276
December 31, 2020	**$**	**(13,527)**	**$**	**(7,891)**	**$**	**(21,418)**
Net book value – December 31, 2020	**$**	**42,715**	**$**	**11,469**	**$**	**54,184**

		Land and buildings		Equipment		Total lease right-of-use assets
Cost						
January 1, 2019	$	23,017	$	8,968	$	31,985
Additions		32,896		8,579		41,475
Disposal		(74)		(152)		(226)
Currency translation effects		(376)		(291)		(667)
December 31, 2019	$	55,463	$	17,104	$	72,567
Accumulated depreciation						
January 1, 2019	$	-	$	-	$	-
Depreciation charge		(8,198)		(4,457)		(12,655)
Disposal		74		152		226
Currency translation effects		96		54		150
December 31, 2019	$	(8,028)	$	(4,251)	$	(12,279)
Net book value – December 31, 2019	$	47,435	$	12,853	$	60,288

Depreciation of lease right-of-use assets included in earnings for the year ended December 31, 2020 was $13.7 million (December 31, 2019 – $12.7 million), of which $7.1 million was included in cost of goods sold (December 31, 2019 – $6.2 million) and $6.6 million was included in selling and administrative expenses (December 31, 2019 – $6.5 million).

NOTE 11. FINANCE LEASES RECEIVABLE

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

At December 31, 2020, the Company finalized the extension of two contracts with a customer, which were previously recognized as build-own-operate-maintain ("BOOM") projects, for an additional 10 years. These contracts were previously scheduled to end in 2021 and 2024. Under the new agreements, the Company will continue providing, operating, and maintaining the existing equipment for approximately 10 years, after which ownership of the equipment will transfer to the customer. The Company determined that the lease component of these agreements should be classified as finance leases, as the contracts transfer substantially all the risks and rewards of the underlying assets. Upon commencement of the new leases, the Company recognized revenue, based on the fair value of the underlying assets, and cost of goods sold, determined to be the net book value of those assets, in the consolidated statements of earnings. In addition, the Company recognized a finance lease receivable equal to the revenue recognized, and derecognized the net book value of the underlying assets from rental equipment.

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

	Minimum lease payments		Present value of minimum lease payments	
December 31,	**2020**	2019	**2020**	2019
Less than one year	**$ 3,047**	$ 446	**$ 2,928**	$ 427
Between one and five years	**42,129**	542	**34,020**	473
Later than five years	**45,445**	-	**27,326**	-
	$ 90,621	$ 988	**$ 64,274**	$ 900
Less: unearned finance income	**(26,347)**	(88)	**-**	-
	$ 64,274	$ 900	**$ 64,274**	$ 900

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At December 31, 2020 the average interest rate was 7.5 percent per annum (December 31, 2019 – 8.3 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 12. OTHER ASSETS

December 31,	**2020**	2019
Investment in associates and joint ventures	**$ 26,566**	$ 25,670
Long-term receivables	**31,910**	-
Prepaid deposits	**124**	198
	$ 58,600	$ 25,868

NOTE 13. INTANGIBLE ASSETS

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2020	$	70,895	$	51,283	$	122,178
Reclassification		-		2,419		2,419
Disposal		-		(5,045)		(5,045)
Currency translation effects		(1,071)		41		(1,030)
December 31, 2020	**$**	**69,824**	**$**	**48,698**	**$**	**118,522**
Accumulated amortization						
January 1, 2020	$	(55,232)	$	(44,888)	$	(100,120)
Amortization charge		(4,974)		(2,798)		(7,772)
Disposal		-		5,045		5,045
Currency translation effects		910		(41)		869
December 31, 2020	**$**	**(59,296)**	**$**	**(42,682)**	**$**	**(101,978)**
Net book value – December 31, 2020	**$**	**10,528**	**$**	**6,016**	**$**	**16,544**

		Customer relationships and other		Software		Total intangible assets
Acquired value						
January 1, 2019	$	72,899	$	49,564	$	122,463
Additions		-		13		13
Reclassification		-		2,768		2,768
Disposal		-		(431)		(431)
Currency translation effects		(2,004)		(631)		(2,635)
December 31, 2019	$	70,895	$	51,283	$	122,178
Accumulated amortization						
January 1, 2019	$	(51,326)	$	(42,255)	$	(93,581)
Amortization charge		(4,966)		(3,694)		(8,660)
Disposal		-		431		431
Currency translation effects		1,060		630		1,690
December 31, 2019	$	(55,232)	$	(44,888)	$	(100,120)
Net book value – December 31, 2019	$	15,663	$	6,395	$	22,058

NOTE 14. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

December 31,		2020		2019
Balance, January 1	$	573,928	$	598,831
Currency translation effects		2,100		(24,903)
	$	576,028	$	573,928

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. During the second quarter of 2020, the Company identified indicators of impairment resulting from the negative economic factors surrounding the oil and gas industry and the impact of the COVID-19 pandemic. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at June 30, 2020, the result of which was no impairment of goodwill. At December 31, 2020, the Company determined that there were no further indicators of impairment, and performed an annual assessment comparing the carrying amount and recoverable amount for each segment in accordance with IAS 36.10(b).

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

The recoverable amounts for the segments have been determined based on value-in-use calculations, using discounted cash flow projections as at December 31, 2020. Management has adopted a five-year projection period to assess each segment's value-in-use, based on management's five-year cash flow projections, which include the financial budgets approved by the Board of Directors for 2021 and management's expectations of cash flows for 2022 to 2025.

Key Assumptions Used in Value-In-Use Calculations:

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

- Earnings Before Finance Costs and Taxes: Management has made estimates relating to the amount and timing of revenue recognition for projects included in backlog, and the assessment of the likelihood of maintaining and growing market share. For each ten percent change in earnings before finance costs and taxes, the average impact on the value-in-use of the Company's three segments would be $52.6 million; and
- Discount Rate: Management determines a discount rate for each segment based on the estimated weighted average cost of capital of the Company, using the five-year average of the Company's peer group debt to total enterprise value, adjusted for a number of risk factors specific to each segment. This discount rate has been calculated using an estimated risk-free rate of return adjusted for the Company's estimated equity market risk premium, the Company's cost of debt, and the tax rate in the local jurisdiction. For each one percent change in the discount rate, the average impact on the value-in-use of the Company's three segments would be $92.6 million.

The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the USA, Rest of World, and Canada segments exceeded the carrying amount using a 9.6 percent (December 31, 2019 – 10.1 percent), 12.8 percent (December 31, 2019 – 14.2 percent), and 10.9 percent (December 31, 2019 – 11.8 percent) post-tax discount rate, respectively.

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

NOTE 15. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

December 31,		2020		2019
Accounts payable and accrued liabilities	$	**178,303**	$	320,932
Accrued dividend payable		**1,794**		10,312
Cash-settled share-based payments		**2,055**		2,361
	$	**182,152**	$	333,605

NOTE 16. PROVISIONS

December 31,		2020		2019
Warranty provision	$	**10,549**	$	15,563
Legal provision		**-**		1,818
Restructuring provision		**-**		869
	$	**10,549**	$	18,250

2020		Warranty provision		Legal provision		Restructuring provision		Onerous lease provision		Total
Balance, January 1	$	15,563	$	1,818	$	869	$	-	$	18,250
Additions during the year		8,203		-		-		-		8,203
Amounts settled and released in the year		(13,232)		(1,818)		(869)		-		(15,919)
Currency translation effects		15		-		-		-		15
Balance, December 31	**$**	**10,549**	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**10,549**

2019		Warranty provision		Legal provision		Restructuring provision		Onerous lease provision		Total
Balance, January 1	$	9,720	$	1,121	$	-	$	2,049	$	12,890
IFRS 16 opening adjustment		-		-		-		(2,049)		(2,049)
Additions during the year		15,551		697		869		-		17,117
Amounts settled and released in the year		(9,368)		-		-		-		(9,368)
Currency translation effects		(340)		-		-		-		(340)
Balance, December 31	$	15,563	$	1,818	$	869	$	-	$	18,250

The Company previously entered into non-cancellable leases for several office spaces and facilities in Canada and Australia. Due to previous business restructuring, the Company ceased using these premises. Onerous lease provisions were recognized in prior years, representing future payments, net of anticipated sub-lease recoveries. Upon adoption of IFRS 16 *Leases* on January 1, 2019, the Company elected to use the practical expedient in IFRS 16.C10(b), which allows a lessee to rely on its assessment of whether leases are onerous applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* immediately before the date of initial application as an alternative to performing an impairment review at the date of initial application of the new standard. The value of lease right-of-use assets at the date of initial application was then adjusted by the amount of these provisions for onerous leases.

NOTE 17. DEFERRED REVENUES

December 31,		2020		2019
Balance, January 1	$	89,409	$	348,804
Cash received in advance of revenue recognition		247,100		424,737
Revenue subsequently recognized		(306,334)		(673,473)
Currency translation effects		5,234		(10,659)
Closing balance	$	35,409	$	89,409

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

NOTE 18. LONG-TERM DEBT

Through private placement, the Company has $307.8 million of senior unsecured notes ("Notes") issued and outstanding. These Notes consist of $105.0 million U.S. dollar and $15.0 million Canadian dollar maturing December 15, 2024 bearing an interest rate of 4.67 percent and 4.50 percent respectively, and $70.0 million U.S. dollar and $30.0 million Canadian dollar maturing December 15, 2027 bearing an interest rate of 4.87 percent and 4.79 percent respectively, issued December 15, 2017. In addition, the Company has $40.0 million Canadian dollars of unsecured notes with an interest rate of 6.01 percent maturing on June 22, 2021.

The Company has an amended and restated syndicated revolving credit facility ("Bank Facility") with an amount available of $725.0 million. The Bank Facility has a maturity date of June 30, 2023 ("Maturity Date") but 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 repayment of principal until the maturity date of the Bank Facility. Drawings on the Bank Facility are available by way of Prime Rate loans, U.S. Base Rate loans, London Interbank Offered Rate ("LIBOR") loans, and Bankers' Acceptance notes. The Company may also draw on the Bank Facility through bank overdrafts in either Canadian or U.S. dollars and issue letters of credit under the Bank Facility.

Pursuant to the terms and conditions of the Bank Facility, a margin is applied to drawings on the Bank Facility in addition to the quoted interest rate. The margin is established in basis points and is based on a consolidated net debt to earnings before finance costs, income taxes, depreciation and amortization ("EBITDA") ratio. The margin is adjusted effective the first day of the third month following the end of each fiscal quarter based on the above ratio.

The Bank Facility is unsecured and ranks pari passu with the Notes. The Company is required to maintain certain covenants on the Bank Facility and the Notes. As at December 31, 2020, the Company was in compliance with these covenants.

The weighted average interest rate on the Bank Facility for the year ended December 31, 2020 was 2.3 percent (December 31, 2019 – 3.5 percent).

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

December 31,		2020		2019
Drawings on Bank Facility	$	**84,369**	$	121,328
Notes due June 22, 2021		**40,000**		40,000
Notes due December 15, 2024		**148,686**		151,374
Notes due December 15, 2027		**119,124**		120,916
Deferred transaction costs		**(2,467)**		(3,131)
	$	**389,712**	$	430,487
Current portion of long-term debt	$	**40,000**	$	-
Non-current portion of long-term debt		**349,712**		430,487
	$	**389,712**	$	430,487

At December 31, 2020 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $273.1 million, and $119.1 million thereafter.

NOTE 19. LEASE LIABILITIES

December 31,		2020		2019
Balance, January 1	$	**67,000**	$	39,438
Additions		**8,065**		41,973
Lease interest		**3,371**		2,586
Payments made against lease liabilities		**(16,141)**		(15,137)
Currency translation effects and other		**(369)**		(1,860)
Closing balance	$	**61,926**	$	67,000
Current portion of lease liabilities	$	**14,693**	$	14,172
Non-current portion of lease liabilities		**47,233**		52,828
	$	**61,926**	$	67,000

In addition to the lease payments made above, during the year ended December 31, 2020, the Company paid $1.0 million (December 31, 2019 – $1.7 million) relating to short-term and low-value leases which were expensed as incurred. During year ended December 31, 2020, the Company also paid $1.6 million (December 31, 2019 – $1.7 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.7 million (December 31, 2019 – $0.4 million) was included in cost of goods sold and $0.9 million (December 31, 2019 – $1.3 million) was included in selling and administrative expenses. Interest expense on lease liabilities was $3.4 million for the year ended December 31, 2020 (December 31, 2019 – $2.6 million). Total cash outflow for leases for the year ended December 31, 2020 was $18.7 million (December 31, 2019 – $19.1 million).

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

		December 31, 2020
2021	$	**15,562**
2022		**13,017**
2023		**9,051**
2024		**6,172**
2025		**6,124**
Thereafter		**25,676**
	$	**75,602**
Less:		
Imputed interest		**13,412**
Short-term leases		**193**
Low-value leases		**71**
	$	**61,926**

NOTE 20. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

Years ended December 31,		2020		2019
Current income taxes	$	**(6,872)**	$	31,720
Deferred income taxes		**14,174**		31,476
	$	**7,302**	$	63,196

(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:

Years ended December 31,		2020		2019
Earnings before income taxes	$	**95,559**	$	215,324
Canadian statutory rate		**24.4%**		26.5%
Expected income tax provision	$	**23,316**	$	57,061
Add (deduct):				
Exchange rate effects on tax basis		**(4,007)**		2,125
Earnings taxed in foreign jurisdictions		**(14,505)**		(1,129)
Revaluation of Canadian deferred tax assets due to change in statutory rate		**597**		5,040
Amounts not deductible (taxable) for tax purposes		**2,426**		723
Impact of accounting for associates and joint ventures		**(530)**		(575)
Other		**5**		(49)
Income tax expense from continuing operations	$	**7,302**	$	63,196

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2019 – 15.0 percent) and provincial income tax rates of 9.4 percent (2019 – 11.5 percent). During the second quarter of 2019 and fourth quarter of 2020, lower

Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 11.5 percent for 2019, 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.

(c) Income Tax Recognized in Other Comprehensive Income

Years ended December 31,		**2020**		2019
Deferred Tax				
Arising on income and expenses recognized in other comprehensive income:				
Fair value remeasurement of hedging instruments entered into for cash flow hedges	**$**	**186**	$	(286)
Arising on income and expenses reclassified from other comprehensive income to net earnings:				
Relating to cash flow hedges		**158**		276
Arising on foreign exchange movement on long-term debt:				
Relating to net investment hedge		**61**		-
Total income tax recognized in other comprehensive income	**$**	**405**	$	(10)

(d) Net Deferred Tax Assets (Liabilities)

Deferred tax assets and liabilities arise from the following:

	Accounting provisions and accruals	Tax losses	Long-term assets	Other	Exchange rate effects on tax bases	Cash flow hedges	Total[1]
January 1, 2020	$ 19,449	$ 26,082	$ (57,684)	$ 1,330	$ (17,144)	$ 335	$ (27,632)
Charged to net earnings	(2,080)	2,661	(18,003)	(756)	4,007	-	(14,171)
Charged to OCI	-	-	-	(61)	-	(344)	(405)
Exchange differences	689	226	1,731	31	338	1	3,016
December 31, 2020	**$ 18,058**	**$ 28,969**	**$ (73,956)**	**$ 544**	**$ (12,799)**	**$ (8)**	**$ (39,192)**

[1]Net deferred tax liabilities at December 31, 2020 of $39.2 million consist of liabilities of $87.4 million net of assets of $48.2 million.

	Accounting provisions and accruals		Tax losses		Long-term assets		Other		Exchange rate effects on tax bases		Cash flow hedges		Total[1]
January 1, 2019	$	19,056	$	32,596	$	(36,986)	$	1,537	$	(15,776)	$	389	$	816
Charged to net earnings		1,276		(6,868)		(23,554)		(205)		(2,125)		-		(31,476)
Charged to OCI		-		-		-		-		-		10		10
Charged to retained earnings		96		-		576		-		-		-		672
Exchange differences		(979)		354		2,280		(2)		757		(64)		2,346
December 31, 2019	$	19,449	$	26,082	$	(57,684)	$	1,330	$	(17,144)	$	335	$	(27,632)

[1]Net deferred tax liabilities at December 31, 2019 of $27.6 million consist of liabilities of $76.2 million net of assets of $48.6 million.

Management has determined that it is appropriate to continue to recognize the full amount of the deferred tax asset, which largely consists of accounting provision and tax losses, as all the deductible temporary difference at December 31, 2020 are expected to be utilized against future taxable profit. The recoverable amount for the deferred tax asset has been determined based on value-in-use calculations, as at December 31, 2020, and financial budgets approved by the Board of Directors, consistent with the projected future earnings used by management in determining the recoverable amount as part of the annual assessment for goodwill impairment in Note 14. Certain of the tax losses recognized are subject to expiration in the years 2026 through 2039.

(e) Unrecognized Deferred Tax Assets

The Company has unused tax losses of $49.7 million for the year ended December 31, 2020 (December 31, 2019 – $42.5 million). Certain of these unrecognized tax losses are subject to expiration in the years 2021 through 2029. Deferred tax assets totaling $7.0 million on these tax losses have not been recognized in the consolidated statements of financial position at December 31, 2020 (December 31, 2019 – $9.0 million).

NOTE 21. SHARE CAPITAL AUTHORIZED

The Company is authorized to issue an unlimited number of common shares. Share capital comprises only one class of ordinary shares. The ordinary shares carry a voting right and a right to a dividend.

Issued and Outstanding

	2020			2019		
Years ended December 31,	**Number of common shares**		**Common share capital**	Number of common shares		Common share capital
Balance, January 1	**89,678,845**	**$**	**375,524**	89,083,621	$	366,120
Exercise of stock options	**-**		**-**	595,224		9,404
Balance, December 31	**89,678,845**	**$**	**375,524**	89,678,845	$	375,524

Total dividends declared in the year were $15.7 million, or $0.115 per share during the first quarter and $0.02 per share during the last three quarters of 2020 (December 31, 2019 – $38.5 million, or $0.105 during the first three quarters and $0.115 per share during the last quarter of 2019).

NOTE 22. CONTRIBUTED SURPLUS

Contributed surplus consists of accumulated stock option expense less the fair value of the options at the grant date that have been exercised and reclassified to share capital. Changes in contributed surplus were as follows:

Years ended December 31,		2020		2019
Balance, January 1	$	655,107	$	654,324
Share-based compensation		1,725		2,735
Exercise of stock options		-		(1,952)
Balance, December 31	$	656,832	$	655,107

NOTE 23. REVENUE

Years ended December 31,		2020		2019
Engineered Systems	$	598,566	$	1,448,503
Service[1]		303,269		350,992
Rentals[1,2]		315,217		245,927
Total revenue	$	1,217,052	$	2,045,422

[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. For the year ended December 31, 2019, $43,594 of revenues have been reclassified from Service to Rentals. 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.

[2] Rentals revenue for 2020 includes the recognition of revenue from a finance lease transaction in the fourth quarter of 2020. Upon commencement of the renegotiated leases, the Company recognized the sale of the related rental assets and a corresponding finance lease receivable. Refer to Note 11 for further details on finance leases.

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

Years ended December 31,		2020		2019
United States	$	549,854	$	954,350
Canada		206,508		484,251
Bahrain		108,358		42,864
Nigeria		92,334		256,177
Australia		65,683		71,592
Oman		53,664		105,721
Mexico		32,945		46,300
Colombia		32,671		17,375
Argentina		21,276		24,522
Brazil		11,130		10,953
United Arab Emirates		10,232		1
Other		32,397		31,316
Total revenue	$	1,217,052	$	2,045,422

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

		Less than one year		One to two years		Greater than two years		Total
Engineered Systems	$	120,826	$	22,147	$	-	$	142,973
Service[1]		25,515		11,188		31,496		68,199
Rentals[1]		171,437		129,377		437,144		737,958
	$	**317,778**	**$**	**162,712**	**$**	**468,640**	**$**	**949,130**

[1] Unsatisfied performance obligations relating to the operation and maintenance of BOOM contracts have been reclassified from Service to Rentals. Please refer to footnote 1 for further details.

NOTE 24. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

Years ended December 31,		2020		2019
Equity settled share-based payments	**$**	**1,725**	$	2,735
Deferred share units		**(1,830)**		(720)
Phantom share entitlement plan		**(54)**		(449)
Performance share units		**667**		2,754
Restricted share units		**755**		2,199
Cash performance target		**553**		1,230
Share-based compensation expense	**$**	**1,816**	$	7,749

(b) Equity-Settled Share-Based Payments

Years ended December 31,	**Number of options**		**2020 Weighted average exercise price**	Number of options		2019 Weighted average exercise price
Options outstanding, beginning of period	**3,565,521**	**$**	**14.67**	3,662,698	$	14.74
Granted	**839,478**		**5.51**	890,836		13.38
Exercised[2]	**-**		**-**	(595,224)		12.52
Forfeited	**(121,547)**		**15.20**	(371,422)		15.67
Expired	**(226,310)**		**14.33**	(21,367)		14.91
Options outstanding, end of period	**4,057,142**	**$**	**12.78**	3,565,521	$	$14.67
Options exercisable, end of period	**1,810,577**	**$**	**14.73**	1,427,608	$	$14.93

[2] No options were exercised for the year ended December 31, 2020. The weighted average share price of Options at the date of exercise for the year ended December 31, 2019 was $18.32.

The Company granted 839,478 stocks options for the year ended December 31, 2020 (December 31, 2019 – 890,836). Using the Black-Scholes option pricing model, the weighted average fair value of stock options granted for the year ended December 31, 2020 was $2.15 per option (December 31, 2019 - $2.87).

The weighted average assumptions used in determinations of fair values are noted below:

Years ended December 31,	**2020**	2019
Expected life (years)	**5.34**	5.28
Expected volatility[1]	**43.6%**	33.9%
Dividend yield	**1.4%**	3.2%
Risk-free rate	**0.5%**	1.2%
Estimated forfeiture rate	**3.6%**	4.1%

[1] Expected volatility is based on the historical volatility of Enerflex over a five-year period, consistent with the expected life of the option.

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

	Options Outstanding				**Options Exercisable**			
Range of exercise prices	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price	Number outstanding	Weighted average remaining life (years)		Weighted average exercise price
$5.51 – $12.05	1,322,439	4.79	$	7.77	482,961	1.60	$	11.69
$12.06 – $14.75	1,199,061	4.65		13.32	464,964	3.66		13.30
$14.76 – $20.75	1,535,642	3.62		16.68	862,652	3.13		17.21
Total	**4,057,142**	**4.30**	**$**	**12.78**	**1,810,577**	**2.86**	**$**	**14.73**

(c) Deferred Share Units

The Company offers a DSU plan for executives and non-employee directors, whereby they may elect on an annual basis to receive all or a portion of their annual bonus, or retainer and fees, respectively, in DSUs. In addition, the Board may grant discretionary DSUs to executives. A specified component of non-employee directors' compensation must be received in DSUs. A DSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the implied market value calculated as the number of DSUs multiplied by the weighted average price per share on the Toronto Stock Exchange ("TSX") for the five trading days immediately preceding the grant.

Additional Enerflex DSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

DSUs may be granted to eligible participants on an annual basis and will vest upon being credited to the executive or non-employee director's account. Participants are not able to cash in their DSUs until they are no longer employed by or cease to be directors of Enerflex. The Company satisfies its payment obligation through cash payments to the participant.

DSUs represent an indexed liability of the Company relative to the Company's share price. For the year ended December 31, 2020, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $2.6 million (December 31, 2019 – $1.8 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2020	721,820	$	13.95
Granted	430,988		6.01
In lieu of dividends	31,430		6.79
Vested	(37,056)		6.34
DSUs outstanding, December 31, 2020	**1,147,182**	**$**	**11.01**

The carrying amount of the liability relating to DSUs as at December 31, 2020 included in current liabilities was nil (December 31, 2019 – $0.1 million) and in other long-term liabilities was $7.5 million (December 31, 2019 – $8.7 million).

(d) Phantom Share Entitlement Plan

The Company utilizes a PSE plan for key employees of affiliates located in the UAE, for whom the Company's Stock Option Plan would have negative personal taxation consequences.

The exercise price of each PSE equals the average of the market price of the Company's shares on the TSX for the five days preceding the date of the grant. The PSEs vest at a rate of one-fifth on each of the first five anniversaries of the date of the grant and expire on the seventh anniversary. The award entitlements for increases in the share trading value of the Company are to be paid to the recipient in cash upon exercise.

In 2020, the Board of Directors granted 34,853 PSEs (December 31, 2019 – 50,968). The intrinsic value of the vested awards at December 31, 2020 was nil (December 31, 2019 – $0.4 million).

	Number of PSEs		Weighted average grant date fair value per unit
PSEs outstanding, January 1, 2020	163,352	$	14.22
Granted	34,853		5.51
PSEs outstanding, December 31, 2020	**198,205**	**$**	**12.69**

The carrying amount of the liability relating to the PSEs as at December 31, 2020 included in current liabilities was $0.1 million (December 31, 2019 – $0.1 million) and in other long-term liabilities was less than $0.1 million (December 31, 2019 – less than $0.1 million).

(e) Performance Share Units

The Company offers a PSU plan for executive officers of the Company. The PSU is a notional unit that entitles the holder to receive payment, as described below, from the Company equal to the number of vested PSUs multiplied by the weighted average price per share on the TSX during the last five trading days immediately preceding the grant. Vesting is based on the achievement of performance measures and objectives specified by the Board of Directors. The Board of Directors assesses performance of the officer to determine the vesting percentage, which can range from zero percent to 200 percent. Within 14 days after the determination of the vesting percentage, the holder will be paid for the vested PSUs either in cash or in shares of the Company acquired on the open market on behalf of the holder, at the discretion of the Company.

Additional Enerflex PSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

The Company paid $0.5 million for the year ended December 31, 2020 representing units vested in the year (December 31, 2019 – $4.1 million).

	Number of PSUs		Weighted average grant date fair value per unit
PSUs outstanding, January 1, 2020	504,621	$	13.50
Granted	564,833		5.51
In lieu of dividends	21,470		6.86
Vested	(76,660)		5.06
Forfeited	(31,429)		15.58
PSUs outstanding, December 31, 2020	**982,835**	**$**	**9.35**

The carrying amount of the liability relating to PSUs as at December 31, 2020 included in current liabilities was $0.6 million (December 31, 2019 – $0.7 million) and in other long-term liabilities was $1.5 million (December 31, 2019 – $1.2 million).

(f) Restricted Share Units

The Company offers an RSU plan to executives officers and other key employees of the Company or its related entities. RSUs may be granted at the discretion of the Board of Directors. An RSU is a notional unit that entitles the holder to receive payment, as described

below, from the Company equal to the number of vested RSUs multiplied by the weighted average price per share on the TSX during the last five trading days immediately preceding the vesting date. Unless otherwise determined by the Board, RSUs vest at a rate of one-third on the first, second, and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested RSUs. Executive officers receive payment in the form of Company shares acquired on the open market, and other key employees receive either cash or Company shares, at the discretion of the Company.

Additional Enerflex RSUs will be credited on the regular dividend payment dates as all dividends are assumed to be reinvested.

During 2020, the Board of Directors granted 680,200 RSUs to officers or key employees of the Company (2019 – 159,740). The Company paid $0.8 million for the year ended December 31, 2020 representing units vested in the year (December 31, 2019 – $2.8 million).

	Number of RSUs		Weighted average grant date fair value per unit
RSUs outstanding, January 1, 2020	292,571	$	11.79
Granted	680,200		5.51
In lieu of dividends	12,860		6.77
Vested	(141,908)		5.31
Forfeited	(61,206)		10.51
RSUs outstanding, December 31, 2020	**782,517**	**$**	**7.52**

The carrying amount of the liability included in current liabilities relating to RSUs at December 31, 2020 was $0.9 million (December 31, 2019 – $0.9 million).

(g) Cash Performance Target Plan

The Company offers a CPT plan to certain non-executive, U.S.-based employees of the Company or its related entities. The plan is denominated in U.S. dollars and may be granted at the discretion of the Board of Directors. Although the liability associated with the CPT plan follows Enerflex's share performance, no actual shares or securities are issued under the plan. The cash payment fluctuates based on the percentage of appreciation or depreciation in the share price over the life of the award, which is calculated using the last five days immediately preceding the vesting date. The cash grants are held for three years, and vest at a rate of one-third on the first, second, and third anniversaries of the award date. Within 30 days of the vesting date, the holder will be paid for the vested cash grants, at the discretion of the Company.

During 2020, the Board of Directors distributed $2.4 million of CPT cash grants (2019 – $1.9 million). The Company paid $0.5 million for the year ended December 31, 2020 representing units vested in the year (December 31, 2019 – $1.3 million). The weighted average grant fair value per unit was $5.51 (December 31, 2019 – $13.74), using the average share price over the five days preceding the grant date.

The carrying amount of the liability included in current liabilities relating to CPT plan at December 31, 2020 was $0.5 million (December 31, 2019 – $0.5 million).

(h) Employee Share Purchase Plan

The Company offers an employee share purchase plan whereby employees who meet the eligibility criteria can purchase shares by way of payroll deductions. There is a Company match of up to $1,000 per employee per annum based on contributions by the Company of $1 for every $3 contributed by the employee. Company contributions vest to the employee immediately. Company contributions are charged to selling and administrative expense when paid. This plan is administered by a third party.

NOTE 25. RETIREMENT BENEFITS PLAN

The Company sponsors arrangements for substantially all of its employees through defined contribution plans in Canada, UK, Asia, and Australia, and a 401(k) matched savings plan in the United States. In the case of the defined contribution plans, regular contributions are made to the employees' individual accounts, which are administered by a plan trustee, in accordance with the plan document. Both in the case of the defined contribution plans and the 401(k) matched savings plan, the pension expenses recorded in earnings are the amounts of actual contributions the Company is required to make in accordance with the terms of the plans.

Years ended December 31,		**2020**		2019
Defined contribution plans	**$**	**4,514**	$	5,485
401(k) matched savings plan		**3,912**		4,556
Net pension expense	**$**	**8,426**	$	10,041

NOTE 26. FINANCE COSTS AND INCOME

Years ended December 31,		**2020**		2019
Finance Costs				
Short and long-term borrowings	**$**	**19,993**	$	19,679
Interest on lease liability		**3,371**		2,586
Total finance costs	**$**	**23,364**	$	22,265
Finance Income				
Bank interest income	**$**	**791**	$	3,596
Income from finance leases		**80**		91
Total finance income	**$**	**871**	$	3,687
Net finance costs	**$**	**22,493**	$	18,578

NOTE 27. RECONCILIATION OF EARNINGS PER SHARE CALCULATIONS

Year ended December 31, 2020		**Net earnings**	**Weighted average shares outstanding**		**Per share**
Basic	**$**	**88,257**	**89,678,845**	**$**	**0.98**
Dilutive effect of stock option conversion		**-**	**-**		**-**
Diluted	**$**	**88,257**	**89,678,845**	**$**	**0.98**

Year ended December 31, 2019		Net earnings	Weighted average shares outstanding		Per share
Basic	$	152,128	89,500,829	$	1.70
Dilutive effect of stock option conversion		-	208,916		0.00
Diluted	$	152,128	89,709,745	$	1.70

NOTE 28. FINANCIAL INSTRUMENTS

The Company has designated its financial instruments as follows:

December 31, 2020		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	95,676	$	95,676
Derivative instruments in designated hedge accounting relationships		491		491
Loans and receivables:				
Accounts receivable		213,375		213,375
Contract assets		66,722		66,722
Long-term receivables		31,910		35,696
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		371		371
Other financial liabilities:				
Accounts payable and accrued liabilities		182,152		182,152
Current portion of long-term debt - notes		40,000		40,610
Long-term debt – bank facility		84,369		84,369
Long-term debt – notes		267,810		284,605
Other long-term liabilities		10,967		10,967

December 31, 2019		Carrying value		Estimated fair value
Financial Assets				
Cash and cash equivalents	$	96,255	$	96,255
Derivative instruments in designated hedge accounting relationships		152		152
Loans and receivables:				
Accounts receivable		384,021		384,021
Contract assets		130,392		130,392
Financial Liabilities				
Derivative instruments in designated hedge accounting relationships		375		375
Other financial liabilities:				
Accounts payable and accrued liabilities		333,605		333,605
Long-term debt – bank facility		121,328		121,328
Long-term debt – notes		312,290		328,037
Other long-term liabilities		14,765		14,765

Fair Values of Financial Assets and Liabilities

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis as at December 31, 2020 and indicates the fair value hierarchy of the valuation techniques used to determine such fair value. During the year ended December 31, 2020, there were no transfers between Level 1 and Level 2 fair value measurements.

Fair values are determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Fair values determined using inputs including forward market rates and credit spreads that are readily observable and reliable, or for which unobservable inputs are determined not to be significant to the fair value, are categorized as Level 2. If there is no active market,

fair value is established using valuation techniques, including discounted cash flow models. The inputs to these models are taken from observable market data where possible, including recent arm's-length market transactions, and comparisons to the current fair value of similar instruments. Where this is not feasible, inputs such as liquidity risk, credit risk, and volatility are used.

	Carrying value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial Assets				
Derivative financial instruments	$ 491	$ -	$ 491	$ -
Long-term receivables	$ 31,910	$ -	$ 35,696	$ -
Financial Liabilities				
Derivative financial instruments	$ 371	$ -	$ 371	$ -
Current portion of long-term debt - notes	$ 40,000	$ -	$ 40,610	$ -
Long-term debt – notes	$ 267,810	$ -	$ 284,605	$ -

Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and other long-liabilities are reported at amounts approximating their fair values on the consolidated statement of financial position. The fair values approximate the carrying values for these instruments due to their short-term nature.

The fair value of derivative financial instruments is measured using the discounted value of the difference between the contract's value at maturity based on the contracted foreign exchange rate and the contract's value at maturity based on prevailing exchange rates. The financial institution's credit risk is also taken into consideration in determining fair value.

Long-term debt associated with the Company's Notes is recorded at amortized cost using the effective interest rate method. The amortized cost of the Notes is equal to the face value as there were no premiums or discounts on the issuance of the debt. Transaction costs associated with the debt were deducted from the debt and are being recognized using the effective interest rate method over the life of the related debt. The fair value of these Notes, determined on a discounted cash flow basis using a weighted average discount rate of 3.4 percent, was $325.2 million at December 31, 2020.

Preferred Shares

During the third quarter of 2020, the Company accepted preferred shares from a customer in exchange for products and services. The preferred shares 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 December 31, 2020 was $22.0 million and $25.7 million.

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 December 31, 2020:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	**10,990**	January 2021 – June 2021
Sales contracts	USD	**(11,602)**	January 2021 – August 2021
Purchase contracts	EUR	**80**	January 2021 – May 2021

Management estimates that a gain of $0.1 million would be realized if the contracts were terminated on December 31, 2020. Certain of these forward contracts are designated as cash flow hedges and accordingly, a gain of $0.5 million has been included in other comprehensive income for the year ended December 31, 2020 (December 31, 2019 – loss of $0.8 million). These gains or losses are not expected to affect net earnings as the gains will be reclassified to net earnings and will offset losses recorded on the underlying hedged

items, namely foreign currency denominated accounts payable and accounts receivable. The amount removed from other comprehensive income during the year and included in the carrying amount of the hedged items for the year ended December 31, 2020 was a gain of $0.5 million (December 31, 2019 – gain of $0.9 million).

All hedging relationships are formally documented, including the risk management objective and strategy. On an on-going basis, an assessment is made as to whether the designated derivative financial instruments continue to be effective in offsetting changes in cash flows of the hedged transactions.

Risks Arising from Financial Instruments and Risk Management

In the normal course of business, the Company is exposed to financial risks that may potentially impact its operating results in any or all of its business segments. The Company employs risk management strategies with a view to mitigating these risks on a cost-effective basis. Derivative financial agreements are used to manage exposure to fluctuations in exchange rates and interest rates. The Company does not enter into derivative financial agreements for speculative purposes.

Foreign Currency Translation Exposure

In the normal course of operations, the Company is exposed to movements in the U.S. dollar, the Australian dollar, and the Brazilian real. In addition, Enerflex has significant international exposure through export from its Canadian operations, as well as a number of foreign subsidiaries, the most significant of which are located in the United States, Argentina, Brazil, Colombia, Mexico, Bahrain, Oman, the UAE, and Australia.

The types of foreign exchange risk and the Company's related risk management strategies are as follows:

Transaction Exposure

The Canadian operations of the Company source the majority of its products and major components from the United States. Consequently, reported costs of inventory and the transaction prices charged to customers for equipment and parts are affected by the relative strength of the Canadian dollar. The Company also sells compression and processing packages in foreign currencies, primarily the U.S. dollar. Most of Enerflex's international orders are manufactured in the United States if the contract is denominated in U.S. dollars. This minimizes the Company's foreign currency exposure on these contracts.

The Company identifies and hedges all significant transactional currency risks. The Company has implemented a hedging policy, applicable primarily to the Canadian domiciled business units, with the objective of securing the margins earned on awarded contracts denominated in currencies other than Canadian dollars. In addition, the Company may hedge input costs that are paid in a currency other than the home currency of the subsidiary executing the contract.

Translation Exposure

The Company's earnings from and net investment in foreign subsidiaries are exposed to fluctuations in exchange rates. The currencies with the most significant impact are the U.S. dollar, Australian dollar, and Brazilian real.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rates in effect at the reporting dates. Non-monetary assets and liabilities measured at historical cost are translated using the rates of exchange at the date of the transaction. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. The cumulative currency translation adjustments are recognized in earnings when there has been a reduction in the net investment in the foreign operations.

Earnings from foreign operations are translated into Canadian dollars each period at average exchange rates for the period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net earnings. The following table shows the effect of a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real on net earnings before tax for the year ended December 31, 2020, all else being equal. A five percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis is provided as an indicative range in a volatile currency environment.

Canadian dollar weakens by 5 percent	**USD**	**AUD**	**BRL**
Earnings before income taxes	$ **2,961**	$ **47**	$ **156**

Sensitivity Analysis

The following sensitivity analysis is intended to illustrate the sensitivity to changes in foreign exchange rates on the Company's financial instruments and show the impact on net earnings and other comprehensive income. Financial instruments affected by currency risk include cash and cash equivalents, accounts receivable, accounts payable, and derivative financial instruments. The following table shows the Company's sensitivity to a five percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. A five percent strengthening of the Canadian dollar would have an equal and opposite effect. This sensitivity analysis relates to the position as at December 31, 2020 and for the year then ended.

Canadian dollar weakens by 5 percent		USD		AUD		BRL
Financial instruments held in foreign operations						
Other comprehensive income	$	9,844	$	894	$	91
Financial instruments held in Canadian operations						
Earnings before income taxes	$	(8,572)	$	-	$	-

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 December 31, 2020 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility, however, is subject to changes in market interest rates.

For each one percent change in the rate of interest on the Bank Facility, the change in annual interest expense would be $0.8 million. All interest charges are recorded on the consolidated statements of earnings as finance costs.

Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents, accounts receivable, net investment in finance lease, and derivative financial instruments.

The Company has accounts receivable from clients engaged in various industries. These specific industries may be affected by economic factors that may impact accounts receivable. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Credit is extended based on an evaluation of the customer's financial condition and, generally, advance payment is not required. Outstanding customer receivables are regularly monitored and an allowance for doubtful accounts is established based expected credit losses.

The Company evaluates the concentration of risk at December 31, 2020 with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets. At December 31, 2020, the Company had no individual customers which accounted to more than 10 percent of its revenue or receivables. At December 31, 2019, the Company had one customer in the USA and Canada segments with balances in accounts receivable and contract assets totaling $68.0 million, representing 12.0 percent of the total balance of accounts receivable and contract assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in this note. The Company does not hold collateral as security.

The credit risk associated with the net investment in finance leases arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into finance lease transactions only in select circumstances. Close contact is maintained with the customer over the duration of the lease to ensure visibility to issues as and if they arise.

The credit risk associated with derivative financial instruments arises from the possibility that the counterparties may default on their obligations. In order to minimize this risk, the Company enters into derivative transactions only with highly-rated financial institutions.

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 and to pay its obligations as they come due. As at December 31, 2020, the Company held cash and cash equivalents of $95.7 million and had drawn $84.4 million against the Bank Facility, leaving it with access to $593.1 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 1.3:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 10:1 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 December 31, 2020:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 321	$ 50	$ -	$ 371
Accounts payable and accrued liabilities	182,152	-	-	182,152
Long-term debt - bank facility	-	-	84,369	84,369
Long-term debt - notes	-	40,000	267,810	307,810
Other long-term liabilities	-	-	10,967	10,967

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 29. CAPITAL DISCLOSURES

The capital structure of the Company consists of shareholders' equity plus net debt. The Company manages its capital to ensure that entities in the Company will be able to continue to grow while maximizing the return to shareholders through the optimization of the debt and equity balances. The Company makes adjustments to its capital structure in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new Company shares, or access debt markets.

The Company formally reviews the capital structure on an annual basis and monitors it on an on-going basis. As part of this review, the cost of capital and the risks associated with each class of capital are considered. In order to position itself to execute its long-term plan to maintain its status as a leading supplier of products and services to the global energy sector, the Company is maintaining a conservative statement of financial position. The Company uses the following measure to monitor its capital structure:

Net Debt to EBITDA Ratio

Net debt to EBITDA is defined as short and long-term debt less cash and cash equivalents at the end of the period, divided by annualized EBITDA. At December 31, 2020, the net debt to EBITDA ratio was:

Years ended December 31,		2020		2019
Long-term debt	$	389,712	$	430,487
Cash and cash equivalents		(95,676)		(96,255)
Net debt	$	294,036	$	334,232
Earnings before finance costs and income taxes	$	118,052	$	233,902
Depreciation and amortization		85,265		86,559
EBITDA	$	203,317	$	320,461
Net debt to EBITDA ratio		1.45:1		1.04:1

The net debt to EBITDA ratio, as defined above is not equivalent to the net debt to EBITDA as defined by the Company's lenders. The bank-adjusted net debt to EBITDA ratio at December 31, 2020 was 1.29. As at December 31, 2020, the Company is in compliance with its covenants. The net debt to EBITDA using adjusted EBITDA (as defined in the "Adjusted EBITDA" section of the annual Management Discussion and Analysis) is 1.54 at December 31, 2020 (December 31, 2019 – 0.97).

NOTE 30. SUPPLEMENTAL CASH FLOW INFORMATION

Years ended December 31,		2020		2019
Net change in non-cash working capital and other				
Accounts receivable	$	170,646	$	85,316
Contract assets		63,670		(25,863)
Inventories		57,134		(93,179)
Deferred revenue		(54,000)		(205,897)
Accounts payable and accrued liabilities, provisions, and income taxes payable		(162,841)		23,123
Foreign currency and other		(41,833)		(5,249)
	$	32,776	$	(221,749)

Cash interest and taxes paid and received during the period:

Years ended December 31,		2020		2019
Interest paid – short- and long-term borrowings	$	19,311	$	19,330
Interest paid – lease liabilities		3,371		2,586
Total interest paid	$	22,682	$	21,916
Interest received		308		3,518
Taxes paid		18,825		29,855
Taxes received		5,566		421

Changes in liabilities arising from financing activities during the period:

Years ended December 31,		2020		2019
Long-term debt, opening balance	$	**430,487**	$	444,712
Changes from financing cash flows		**(40,081)**		(812)
The effect of changes in foreign exchange rates		**(1,358)**		(14,156)
Amortization of deferred transaction costs		**922**		1,523
Other changes		**(258)**		(780)
Long-term debt, closing balance	$	**389,712**	$	430,487

NOTE 31. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At December 31, 2020, the Company had outstanding letters of credit of $47.5 million (December 31, 2019 - $46.3 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. At December 31, 2020, the Company did not record any legal provisions (December 31, 2019 - $1.8 million). 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	$	**58,266**
2022		**1,459**
2023		**118**

NOTE 32. RELATED PARTIES

Enerflex transacts with certain related parties as a normal course of business. Related parties include Roska DBO, the Company's 45 percent equity investment, the Company's 50 percent controlling interest in Geogas consortium, and the Company's 65 percent interest in a joint venture in Brazil.

On December 22, 2020, Enerflex entered into an agreement to terminate an entity and to purchase the assets of that entity for net consideration of $6.7 million Brazilian real ($1.7 million Canadian dollars). This purchase was recorded as a transaction between shareholders. The entity had previously been fully consolidated and a non-controlling interest had been recorded in equity and net earnings. Upon termination of the entity, the related non-controlling interest was reduced to nil, and a retained earnings adjustment of $0.2 million was recorded to reflect the difference between the purchase price and the amount by which the non-controlling interest was adjusted.

All transactions occurring with related parties were in the normal course of business operations under the same terms and conditions as transactions with unrelated companies. The Company did not have any transactions with the joint venture in Brazil during the year ended December 31, 2020. A summary of the financial statement impacts of all transactions with all related parties is as follows:

Years ended December 31,		**2020**		2019
Associate – Roska DBO				
Revenue	**$**	**558**	$	509
Purchases		**-**		-
Accounts receivable		**1**		4
Accounts Payable		**56**		-
Joint Operation – Geogas				
Revenue	**$**	**-**	$	62
Purchases		**-**		74
Accounts receivable		**-**		19
Accounts payable		**-**		-

All related party transactions are settled in cash.

The remuneration of directors and other key management personnel was as follows:

Years ended December 31,		**2020**		2019
Short-term compensation	**$**	**6,344**	$	4,747
Post-employment compensation		**515**		413
Share-based payments		**8,011**		7,857

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

NOTE 33. 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 34. 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 year ended December 31, 2020, the Company had no individual customers which accounted for more than 10 percent of its revenue. For the year ended December 31, 2019, the Company recognized $262.5 million of revenue from one customer in the USA and Canada segments, which represented 12.8 percent of total consolidated

revenue for the period. At December 31, 2019, amounts owing from the customer included in accounts receivable and contract assets was $68.0 million, which represented 12.0 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, operations and maintenance solutions, and contract compression rentals;*
- *Rest of World generates revenue from manufacturing (focusing on large-scale process equipment), after-market services, including parts and components, as well as operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The Rest of World segment has been successful in securing build-own-operate-maintain and integrated turnkey projects; and*
- *Canada generates revenue from manufacturing both custom and standard natural gas compression, processing, and electric power equipment, as well as providing after-market mechanical service, parts, and compression and power generation rentals.*

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

Years ended December 31,	USA		Rest of World		Canada		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment revenue	**$ 649,133**	$ 1,243,760	**$ 353,210**	$ 354,680	**$ 247,390**	$ 518,042	**$ 1,249,733**	$ 2,116,482
Intersegment revenue	**(16,847)**	(48,091)	**(199)**	(7,846)	**(15,635)**	(15,123)	**(32,681)**	(71,060)
Revenue	**$ 632,286**	$ 1,195,669	**$ 353,011**	$ 346,834	**$ 231,755**	$ 502,919	**$ 1,217,052**	$ 2,045,422
Revenue – Engineered Systems	**390,178**	947,451	**40,485**	76,813	**167,903**	424,239	**598,566**	1,448,503
Revenue – Service[1]	**150,939**	172,130	**96,092**	111,357	**56,238**	67,505	**303,269**	350,992
Revenue – Rentals[1,2]	**91,169**	76,088	**216,434**	158,664	**7,614**	11,175	**315,217**	245,927
Operating income	**$ 56,504**	$ 194,010	**$ 40,488**	$ 511	**$ 19,020**	$ 37,387	**$ 116,012**	$ 231,908

[1] 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. For the year ended December 31, 2019 the amount reclassified was $43,594. Please refer to Note 23 for further details.

[2] Rentals revenue for 2020 includes the recognition of revenue from a finance lease transaction in the fourth quarter of 2020. Upon commencement of the renegotiated leases, the Company recognized the sale of the related rental assets and a corresponding finance lease receivable. Refer to Note 11 for further details on finance leases.

As at December 31,	USA		Rest of World		Canada		Total	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019
Segment assets	**$ 895,022**	$ 948,437	**$ 610,597**	$ 601,512	**$ 525,510**	$ 552,457	**$ 2,031,129**	$ 2,102,406
Goodwill	**155,094**	158,214	**332,567**	327,347	**88,367**	88,367	**576,028**	573,928
Corporate	**-**	-	**-**	-	**-**	-	**(427,581)**	(295,326)
Total segment assets	**$ 1,050,116**	$ 1,106,651	**$ 943,164**	$ 928,859	**$ 613,877**	$ 640,824	**$ 2,179,576**	$ 2,381,008

NOTE 35. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, Enerflex declared a quarterly dividend of $0.02 per share, payable on April 1, 2021, to shareholders of record on March 11, 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.

DIRECTORS AND EXECUTIVES

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

BOARD OF DIRECTORS

FERNANDO ASSING [4]
Director
Houston, TX

ROBERT S. BOSWELL [1, 4]
Director
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MAUREEN CORMIER JACKSON [6]
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Calgary, AB

W. BYRON DUNN [2, 4]
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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

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

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

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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Calgary, AB, Canada and Toronto, ON, Canada

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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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