MANAGEMENT'S DISCUSSION AND ANALYSIS

August 4, 2021

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "the Company" or "we" or "our") should be read in conjunction with the unaudited interim condensed consolidated financial statements for three and six months ended June 30, 2021 and 2020, the Company's 2020 Annual Report, the Annual Information Form for the year ended December 31, 2020, and the cautionary statement regarding forward looking information in the "Forward-Looking Statements" section of this report.

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

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

FINANCIAL OVERVIEW

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands, except percentages)	2021	2020	2021	2020
Revenue	$ 204,507	$ 287,438	$ 407,712	$ 653,178
Gross margin	55,679	65,800	105,227	159,532
Selling and administrative expenses	37,934	51,361	80,461	94,873
Operating income	17,745	14,439	24,766	64,659
Earnings before finance costs and income taxes ("EBIT")	17,995	15,428	24,579	65,440
Net earnings	$ 4,291	$ 7,415	$ 7,294	$ 44,853
Key Financial Performance Indicators[1]				
Engineered Systems bookings	$ 154,545	$ 42,501	$ 253,237	$ 197,895
Engineered Systems backlog	258,980	291,062	258,980	291,062
Recurring revenue growth[2]	0.9%	(11.9)%	(2.9)%	(6.0)%
Gross margin as a percentage of revenue	27.2%	22.9%	25.8%	24.4%
EBIT as a percentage of revenue[3]	7.9%	12.1%	7.9%	12.1%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	$ 39,384	$ 37,214	$ 67,040	$ 107,965
Return on capital employed ("ROCE")[3]	4.6%	11.7%	4.6%	11.7%
Rental horsepower	780,916	698,168	780,916	698,168

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

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

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

SECOND QUARTER 2021 OVERVIEW

For the three months ended June 30, 2021:

- Operating income was higher than the prior year, primarily due to savings in SG&A, as well as an increased contribution from higher margin recurring revenue product offerings. Engineered Systems revenues were lower, as expected, due to a lower entering backlog versus the comparative Q2 2020 period. Adverse foreign exchange impacts due to a weaker U.S. dollar, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020 also contributed to the difference.
- Bookings totaled $154.5 million, up from $42.5 million in the same period last year and demonstrate an improving backdrop for our Engineered Systems business. The movement in foreign exchange rates resulted in a decrease of $0.8 million on foreign currency denominated backlog during the second quarter of 2021.
- Engineered Systems backlog at June 30, 2021 is $259.0 million, an increase of $116.0 million, compared to the backlog of $143.0 million on December 31, 2020 due to Engineered Systems bookings outpacing revenue recognized in the period, partially offset by unfavourable foreign exchange impacts of $2.1 million.
- SG&A costs of $37.9 million in the second quarter of 2021 were down from $51.4 million in the same period last year. This favorable variance was the result of the large bad debt provisions in Q2 2020, lower compensation expense on reduced headcount, and decreased profit share on lower operational results. These SG&A savings were partially offset by higher share-based compensation on the increase of the Company's share price during the second quarter. The movement in share price resulted in $3.2 million of share-based compensation in the quarter, compared to $0.7 million in the second quarter of 2020 – a net increase of $2.5 million period-over-period. The Company continues to monitor costs and remains focused on controlling expenditures where possible.
- Inventory levels decreased in the quarter and the Company expects to continue to realize major equipment inventory into Engineered Systems projects and new contract compression units; however, the timing and extent to which inventory can be utilized is dependent on demand. In addition, Enerflex remains vigilant in assessing outstanding receivables.
- The Company invested $12.5 million in rental assets to fund the organic expansion of the USA contract compression fleet. At June 30, 2021, the USA contract compression fleet totaled approximately 380,000 horsepower with an average fleet utilization of 85 percent for the quarter. The Company has also invested $14 million towards construction of a natural gas infrastructure asset, which will be accounted for as a finance lease.
- The Company repaid $40.0 million of 6.0 percent senior unsecured notes ("Senior Notes") that were due on June 22, 2021. The repayment was financed by cash on hand and drawings on the Bank Facility.
- A subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars. This new credit facility is non-recourse to the Company.
- The Company maintained balance sheet strength by managing working capital, reducing debt, and continuing to exercise capital discipline. We exited the quarter financially strong, with a bank-adjusted net debt to EBITDA ratio of 1.18:1, compared to a maximum ratio of 3:1. This leverage ratio excludes the non-recourse debt. Enerflex has substantial undrawn credit capacity and cash on hand.
- The Company's long-term debt is comprised of both recourse debt totaling $296.1 million, and non-recourse debt totaling $43.3 million.
- Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of $0.02 per share, payable on October 7, 2021, to shareholders of record on August 19, 2021. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.
- Subsequent to June 30, 2021, the Company extended $660.0 million of its Bank Facility to June 30, 2025, under substantially the same terms and conditions.

For the six months ended June 30, 2021:

- Operating income was lower than the prior year, primarily due to reduced Engineered Systems revenue and lower opening backlog. Adverse foreign exchange impact due to a weaker U.S. dollar, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020 were also contributing factors. These impacts were partially offset by lower SG&A and the increased contribution from higher margin recurring revenue product offerings.
- SG&A costs of $80.5 million in the first six months of 2021 were down from $94.9 million in the same period last year. This favorable variance was the result of lower bad debt provisions, decreased compensation expense on reduced headcount and

government grants, and decreased profit share on lower operational results, partially offset by higher share-based compensation. The movement in share price resulted in $8.4 million of share-based compensation expense, compared to $(4.4) million recovery in the first six months of 2020 – a net increase of $12.8 million period-over-period.

- Engineered Systems bookings totaled $253.2 million, up from $197.9 million in the same period last year reflecting improving conditions for customers. The movement in foreign exchange rates resulted in a decrease of $2.1 million on foreign currency denominated backlog during the first six months of 2021, compared to a $16.0 million increase in the comparable period – a net decrease of $18.1 million period-over-period.

ADJUSTED EBITDA

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

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

During the second quarter of 2020, the Company added another adjustment related to government grants, most notably the Canada Emergency Wage Subsidy. The subsidies received 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. 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 June 30, 2021
($ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	$ 17,995	$ 4,880	$ 9,410	$ 3,705
Government grants in COGS and SG&A	(6,398)	(879)	-	(5,519)
Share-based compensation	3,158	1,554	1,122	482
Depreciation and amortization	21,389	10,346	9,187	1,856
Adjusted EBITDA	$ 36,144	$ 15,901	$ 19,719	$ 524

				Three months ended June 30, 2020
($ Canadian thousands)	Total	USA	ROW	Canada
Reported EBIT	$ 15,428	$ 6,751	$ 3,817	$ 4,860
Severance costs in COGS and SG&A	1,981	509	91	1,381
Government grants in COGS and SG&A	(6,370)	-	(593)	(5,777)
Share-based compensation	690	435	177	78
Depreciation and amortization	21,786	10,662	8,955	2,169
Adjusted EBITDA	$ 33,515	$ 18,357	$ 12,447	$ 2,711

($ Canadian thousands)	Total	USA	ROW	Canada
				Six months ended June 30, 2021
Reported EBIT	$ 24,579	$ 5,246	$ 14,113	$ 5,220
Severance costs in COGS and SG&A	749	112	202	435
Government grants in COGS and SG&A	(10,459)	(1,383)	-	(9,076)
Share-based compensation	8,425	3,738	3,224	1,463
Depreciation and amortization	42,461	20,550	18,071	3,840
Adjusted EBITDA	$ 65,755	$ 28,263	$ 35,610	$ 1,882

($ Canadian thousands)	Total	USA	ROW	Canada
				Six months ended June 30, 2020
Reported EBIT	$ 65,440	$ 44,135	$ 14,073	$ 7,232
Severance costs in COGS and SG&A	3,015	796	124	2,095
Government grants in COGS and SG&A	(6,370)	-	(593)	(5,777)
Share-based compensation	(4,399)	(2,258)	(1,386)	(755)
Depreciation and amortization	42,525	20,576	17,507	4,442
Adjusted EBITDA	$ 100,211	$ 63,249	$ 29,725	$ 7,237

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 June 30,		Six months ended June 30,	
($ Canadian thousands)	2021	2020	2021	2020
Bookings				
USA	$ 121,409	$ 13,433	$ 164,145	$ 109,540
Rest of World	(623)	6,804	40,866	41,297
Canada	33,759	22,264	48,226	47,058
Total bookings	$ 154,545	$ 42,501	$ 253,237	$ 197,895

($ Canadian thousands)	June 30, 2021	December 31, 2020
Backlog		
USA	$ 166,985	$ 76,778
Rest of World	44,958	16,176
Canada	47,037	50,019
Total backlog	$ 258,980	$ 142,973

Engineered Systems bookings improved during the second quarter and first half of 2021 and backlog has increased by 80 percent since end-of-year 2020. Improvements in supply & demand fundamentals and in the commodity price environment has led to an improved pipeline of opportunities and new bookings. Enerflex's customers remain focused on capital discipline and there is some uncertainty in the pace of recovery from pandemic lows, but Enerflex is cautiously optimistic about the trajectory of the recovery.

Backlog at June 30, 2021 was 80 percent higher than at December 31, 2020 due to Engineered Systems bookings outpacing revenue recognized in the period, partially offset by unfavourable foreign exchange impacts. The movement in exchange rates resulted in a decrease of $0.8 million during the second quarter and a decrease of $2.1 million during the first half of 2021 on foreign currency denominated backlog, compared to a decrease of $9.6 million and an increase of $16.0 million in the same periods of 2020.

SEGMENTED RESULTS

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

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

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

USA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2021	2020	Six months ended June 30, 2021	2020
Engineered Systems bookings	$ 121,409	$ 13,433	$ 164,145	$ 109,540
Engineered Systems backlog	166,985	150,696	166,985	150,696
Segment revenue	$ 120,754	$ 179,440	$ 205,719	$ 408,621
Intersegment revenue	(15,095)	(2,042)	(18,114)	(4,114)
Revenue	$ 105,659	$ 177,398	$ 187,605	$ 404,507
Revenue – Engineered Systems	$ 44,698	$ 113,282	$ 73,938	$ 278,898
Revenue – Service	$ 37,195	$ 41,307	$ 67,309	$ 79,568
Revenue – Rentals	$ 23,766	$ 22,809	$ 46,358	$ 46,041
Operating income	$ 4,872	$ 6,751	$ 5,238	$ 44,135
EBIT	$ 4,880	$ 6,751	$ 5,246	$ 44,135
EBITDA	$ 15,226	$ 17,413	$ 25,796	$ 64,711
Segment revenue as a % of total revenue	51.7%	61.7%	46.0%	61.9%
Recurring revenue growth	(4.9)%	0.1%	(9.5)%	7.8%
Operating income as a % of segment revenue	4.6%	3.8%	2.8%	10.9%
EBIT as a % of segment revenue	4.6%	3.8%	2.8%	10.9%
EBITDA as a % of segment revenue	14.4%	9.8%	13.8%	16.0%

Engineered Systems bookings of $121.4 million in the second quarter of 2021 represents an increase of $108.0 million compared to the same period in the prior year. Bookings activity continues to be slightly lower than historical levels, with second quarter bookings averaging $131.0 million over the previous five years. The Company has seen some improvement in activity levels and is cautiously optimistic that this will translate into new bookings in the second half of 2021 and the first half of 2022.

Revenue decreased by $71.7 million and $216.9 in the second quarter and first half of 2021 compared to the same periods of 2020 due largely to lower Engineered Systems and Service revenue. Engineered Systems revenue decreased due to lower opening backlog, while Service was lower due to the slower recovery from the inclement weather that impacted the first quarter, as well as continued margin pressure due to higher levels of competition and increasing costs, and a weaker U.S. dollar. Rentals revenue was higher than the comparative period, with a larger rental fleet and higher utilization being offset by the weaker U.S. dollar.

In the second quarter and first half of 2021, SG&A was lower than the comparative periods due to the reduced bad debt provision, reduced compensation expenses on lower headcount and salaries, and decreased profit share on lower operational results, partially offset by mark-to-market impacts on share-based compensation. The Company continues to monitor costs in response to recent commodity price volatility and the uncertainty caused by the COVID-19 pandemic and remains focused on controlling costs where possible.

Operating income was lower in the second quarter and first half of 2021 compared to the prior year by $1.9 million and $38.9 million, primarily due to lower gross margins compared to the prior year, partially offset by the lower SG&A and the aforementioned bad debt provision. Gross margins decreased mainly due to lower Engineered Systems revenue discussed above, as well as the reduced contribution from certain large, high margin Engineered Systems projects that were largely completed by the third quarter of 2020.

At June 30, 2021, the USA contract compression fleet totaled approximately 380,000 horsepower, compared to approximately 350,000 horsepower at December 31, 2020. The average utilization of the USA contract compression fleet for the three and six months ended June 30, 2021 was 85 percent and 84 percent, respectively, compared to 82 percent and 84 percent in the comparative periods in 2020.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Engineered Systems Bookings	$ (623)	$ 6,804	$ 40,866	$ 41,297
Engineered Systems Backlog	44,958	43,393	44,958	43,393
Segment revenue	$ 65,429	$ 59,533	$ 135,946	$ 129,808
Intersegment revenue	(34)	-	(40)	-
Revenue	$ 65,395	$ 59,533	$ 135,906	$ 129,808
Revenue – Engineered Systems	$ 3,642	$ 189	$ 12,084	$ 6,845
Revenue – Service	$ 24,668	$ 22,850	$ 50,579	$ 46,730
Revenue – Rentals	$ 37,085	$ 36,494	$ 73,243	$ 76,233
Operating income	$ 9,355	$ 3,807	$ 14,083	$ 14,020
EBIT	$ 9,410	$ 3,817	$ 14,113	$ 14,073
EBITDA	$ 18,597	$ 12,772	$ 32,184	$ 31,580
Segment revenue as a % of total revenue	32.0%	20.7%	33.3%	19.9%
Recurring revenue growth	4.1%	(17.0)%	0.7%	(11.4)%
Operating income as a % of segment revenue	14.3%	6.4%	10.4%	10.8%
EBIT as a % of segment revenue	14.4%	6.4%	10.4%	10.8%
EBITDA as a % of segment revenue	28.4%	21.5%	23.7%	24.3%

Engineered Systems bookings were negative during the current quarter due to unfavorable foreign exchange impacts on backlog. On a year-to-date basis, bookings are on par with the comparative period as Enerflex was awarded a new 10-year natural gas infrastructure contract during the first quarter of 2021.

In the second quarter and first half of 2021 Rest of World revenue is $5.9 million and $6.1 million higher than the comparative periods. All product lines revenues increased during the second quarter of 2021, while higher Engineered Systems and Service revenues were partially offset by lower Rentals revenue in the first half of 2021. Engineered Systems revenue improved on the continued progress made on an electric power and gas treatment project, while Service revenues increased on higher activity levels in Australia. Rentals revenue for the three months ended June 30, 2021 increased over the comparative period, despite the weakening of the U.S. dollar, which created an unfavorable movement of approximately $5 million. Rentals revenue for the first half of 2021 decreased due to unfavorable foreign exchange movements totalling approximately $7 million, lower rates on extended contracts in the Middle East, and the expiration of certain contracts in Mexico during the prior year. These unfavorable impacts were partially offset by a BOOM contract in MEA that commenced operations during first quarter of 2021 and provided a full contribution to operating results during the current quarter.

Operating income increased by $5.5 million and $0.1 million in the second quarter and first half of 2021 compared to the same periods in 2020 due to higher gross margins on increased revenues, partially offset by slightly higher SG&A. For the second quarter and first half of 2021, SG&A costs are marginally higher than the comparable periods in 2020, with higher share-based compensation on mark-to-market movement being partially offset by lower third-party services and lower foreign exchange recoveries.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Engineered Systems bookings	$ 33,759	$ 22,264	$ 48,226	$ 47,058
Engineered Systems backlog	47,037	96,973	47,037	96,973
Segment revenue	$ 39,128	$ 51,182	$ 90,757	$ 120,535
Intersegment revenue	(5,675)	(675)	(6,556)	(1,672)
Revenue	$ 33,453	$ 50,507	$ 84,201	$ 118,863
Revenue – Engineered Systems	$ 16,658	$ 35,726	$ 51,208	$ 88,847
Revenue – Service	$ 15,767	$ 12,877	$ 30,278	$ 25,712
Revenue – Rentals	$ 1,028	$ 1,904	$ 2,715	$ 4,304
Operating income	$ 3,518	$ 3,881	$ 5,445	$ 6,504
EBIT	$ 3,705	$ 4,860	$ 5,220	$ 7,232
EBITDA	$ 5,561	$ 7,029	$ 9,060	$ 11,674
Segment revenue as a % of total revenue	16.4%	17.6%	20.7%	18.2%
Recurring revenue growth	13.6%	(30.8)%	9.9%	(26.9)%
Operating income as a % of segment revenue	10.5%	7.7%	6.5%	5.5%
EBIT as a % of segment revenue	11.1%	9.6%	6.2%	6.1%
EBITDA as a % of segment revenue	16.6%	13.9%	10.8%	9.8%

Bookings in the second quarter of 2021 increased to $33.8 million from $22.3 million a year ago. Bookings have improved as Enerflex's customers continue to recover from the COVID-19 pandemic induced downturn in the oil and gas industry. The Company has seen a slight improvement in activity levels and is cautiously optimistic that this will translate into new bookings in the second half of 2021 and first half of 2022.

Revenue decreased by $17.1 million and $34.7 million for the second quarter and first half of 2021 compared to the same periods in 2020, primarily due to lower Engineered Systems revenue on a lower opening backlog. Service revenue increased on higher parts sales, while Rentals revenue decreased due to certain rental units being returned rather than renewed.

The Canadian segment recorded an operating income of $3.5 million and $5.4 million for the second quarter and first half of 2021 compared to $3.9 million and $6.5 million in the same periods of 2020. Operating income decreased due to lower gross margin on reduced revenue and higher SG&A in the quarter, partially offset by improved gross margin percentage. SG&A for the three months ended June 30, 2021 increased relative to the comparative period due to lower cost recoveries related to government assistance programs, and share-based compensation expenses on mark-to-market movement. SG&A for the first half of 2021 decreased due to reduced compensation expenses on lower headcount and salaries, offset by mark-to-market impacts on share-based compensation.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Rentals. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, construction, installation, and the start-up of equipment. The Service product line provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services. The Rentals product line encompasses a fleet of natural gas compression, processing, and electric power equipment totalling over 780,000 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 June 30, 2021
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 204,507	$ 64,998	$ 77,630	$ 61,879
Cost of goods sold:				
Operating expenses	131,932	51,956	59,220	20,756
Depreciation and amortization	16,896	2,028	987	13,881
Gross margin	$ 55,679	$ 11,014	$ 17,423	$ 27,242

				Three months ended June 30, 2020
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 287,438	$ 149,197	$ 77,034	$ 61,207
Cost of goods sold:				
Operating expenses	204,627	124,448	58,504	21,675
Depreciation and amortization	17,011	2,139	1,234	13,638
Gross margin	$ 65,800	$ 22,610	$ 17,296	$ 25,894

				Six months ended June 30, 2021
($ Canadian thousands)	Total	Engineered Systems	Service	Rentals
Revenue	$ 407,712	$ 137,230	$ 148,166	$ 122,316
Cost of goods sold:				
Operating expenses	269,007	113,593	112,807	42,607
Depreciation and amortization	33,478	4,099	1,986	27,393
Gross margin	$ 105,227	$ 19,538	$ 33,373	$ 52,316

($ Canadian thousands)	Six months ended June 30, 2020 Total	Engineered Systems	Service	Rentals
Revenue	$ 653,178	$ 374,590	$ 152,010	$ 126,578
Cost of goods sold:				
Operating expenses	460,622	297,781	116,556	46,285
Depreciation and amortization	33,024	4,249	2,058	26,717
Gross margin	$ 159,532	$ 72,560	$ 33,396	$ 53,576

INCOME TAXES

Income tax expense totaled $8.7 million or 67.1 percent and $7.3 million or 50.1 percent of earnings before tax for the second quarter and first half of 2021, compared to $1.8 million or 19.9 percent and $8.5 million of 15.9 percent of earnings before tax in the same periods of 2020. Income tax expense for the second quarter of 2021 was higher due to the impact of withholding tax on dividends received from foreign subsidiaries, the effect of earnings taxed in foreign jurisdictions, and the exchange rate effects on tax basis. During the fourth quarter of 2020, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 9.0 percent for 2020, and 8.0 percent for 2021 and thereafter.

OUTLOOK

The outlook for Exploration & Production ("E&P") capital spending has been steadily improving since mid-2020 when budgets were reset during the COVID-19 pandemic. Commodity prices have recovered, and E&P and Midstream balance sheets and free-cash-flow positions have been improving. Oil and gas demand has been recovering, despite some continued effects of the COVID-19 pandemic. As a result, Enerflex expects customer capex to increase as fundamentals improve in the second half of 2021 and 2022. This trend can be seen in Enerflex's bookings which have improved steadily since Q2 2020. Although customers continue to show discipline in spending within their cash flow, we are cautiously optimistic that this trend should continue given current fundamentals outlook.

In addition, an "Energy Transition" towards less carbon-intensive energy sources is presenting new opportunities for the Company in several regions, leveraging the strength of Enerflex in providing modularized engineer-to-order solutions for the energy industry. The Company is working with existing and new customers to advance projects that: 1) decarbonize core operations; 2) capture carbon; 3) build infrastructure for renewable fuels; and 4) explore new hydrogen opportunities.

The Company will continue to preserve the strength of its balance sheet and maximize cash flow through disciplined capital spending in 2021, with investments prioritizing higher-margin, less-cyclical businesses with attractive returns. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

In the short term, Enerflex remains focused on providing a safe working environment for all employees, while preserving capital and maintaining balance sheet strength in response to uncertainty caused by the COVID-19 pandemic and recent market volatility. Given the current environment, the Company is carefully assessing project spending, with a focus on ensuring future projects provide maximum returns on invested capital. In the longer term, the Company continues to balance the expected impacts of broader market factors, such as volatility in realized commodity prices, political and economic uncertainty, and consistent access to market, against the projected increases in global demand for natural gas, particularly as an energy transition fuel to support decarbonization. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

We continue to see improving fundamentals that should drive better activity for Engineered Systems. Natural Gas prices have increased approximately 60 percent between December 31, 2020 and June 30, 2021, and oil prices have held steady above $60/bbl despite the increase in production OPEC will be bringing to the market. In North America, this improving backdrop has resulted in rigs increasing by over 100 percent versus the 2020 trough. While operator balance sheets have strengthened, there is still some hesitation to increase spending too quickly due to investor sentiment and some uncertainty in the speed of recovery from the COVID-19 pandemic. In aggregate, however, the Company feels that operator spending and, therefore the demand for Enerflex products and services is growing.

Recurring revenues, both in terms of after-market service and contract compression demand, have proven stable in terms of overall performance. While U.S. oil and gas production has been impacted by global events, the Company believes that the increased presence of larger, more patient producers in basins such as the Permian is supportive for long-term value creation.

Energy Transition could provide significant opportunity for the Company in the USA. Our customers have started to adopt electric motor drive compression which entirely eliminates the Scope 1 emissions of the compressor. In addition, carbon capture is getting additional attention and is supported through the federal government's 45-Q tax incentive. Low carbon fuel initiatives are being adopted across the USA which have the potential of increasing demand for the Company's products and services.

Rest of World

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

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

In Latin America, the Company 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. Short-term, however, this region is still feeling the impacts of the COVID-19 pandemic. The Company is well positioned to provide products and services throughout the region as activity takes place in its key markets, particularly Argentina, Brazil, Colombia, and Mexico.

In Australia, demand for Enerflex service and maintenance support remains solid. Liquified natural gas ("LNG") supply contracts are providing a stable demand for gas from producers. Downward pressure on production costs are increasing customers' desire to improve equipment reliability and efficiency and Enerflex is well positioned to support production equipment optimization and improve reliability. Capital equipment demand in the Australian market has seen a slowdown in response to the current economic environment; however, multiple new opportunities have been approved by customers, which will support activity in this region throughout 2021.

Canada

A sustained increase in rig count, as well as steady oil prices, are positive indicators for this region and the segment saw some new equipment enquiries being converted to purchase orders the during the second quarter of 2021. In particular, the Montney Shale in Alberta and northeastern British Columbia is a world class shale play where the Company expects to see strong growth over the next decade.

The Company continues to evaluate various markets in Energy Transition. For Canada, the Company is seeing a lot of discussion around carbon capture and biofuels. These markets are dependent on supporting government policy and we are hopeful that this clarity will be provided in the next 12-24 months. Canada and various provincial governments are also evaluating hydrogen strategies which could also present a growth market for Enerflex.

The after-market service product line has seen some major maintenance deferrals in the first half of 2021, but the Company expects activity to pick up during the second half of the year. Increased market confidence is expected to result in an improved second half of 2021.

ENERFLEX STRATEGY

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

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

In the USA segment, Enerflex has concentrated its efforts on key regions and basins, driven by the U.S.'s increasingly complex natural gas sector. The Company has looked to build on its successes for gas processing solutions for liquids-rich plays in the region and support the development of upstream resources and midstream infrastructure required to feed local demand and an export-focused LNG industry. For our recurring revenue product lines, the focus for the Service business has been on optimizing across the region while responding to market demand in all locations. For the Rentals product line, the organic expansion of the contract compression fleet has allowed Enerflex to increase revenues, while the Company's ability to design, engineer, and build contract compression units positions Enerflex well to respond to future growth in the segment. The Company believes that the long-term impact of continued focus on these recurring revenue product lines will be increased predictability and stability in earnings and cash flows, while strategic investment in the contract compression fleet should drive growth and strong returns for the Rentals business.

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

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

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

NON-IFRS MEASURES

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

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	2021	2020	2021	2020
EBITDA				
EBIT	$ 17,995	$ 15,428	$ 24,579	$ 65,440
Depreciation and amortization	21,389	21,786	42,461	42,525
EBITDA	$ 39,384	$ 37,214	$ 67,040	$ 107,965
Recurring Revenue				
Service	$ 77,630	$ 77,034	$ 148,166	$ 152,010
Rentals	61,879	61,207	122,316	126,578
Total Recurring Revenue	$ 139,509	$ 138,241	$ 270,482	$ 278,588
ROCE				
Trailing 12-month EBIT	$ 77,191	$ 201,995	$ 77,191	$ 201,995
Capital Employed – beginning of period				
Net debt[1]	$ 251,503	$ 402,717	$ 294,036	$ 334,232
Shareholders' equity	1,377,396	1,458,760	1,396,695	1,342,787
	$ 1,628,899	$ 1,861,477	$ 1,690,731	$ 1,677,019
Capital Employed – end of period				
Net debt[1]	$ 240,434	$ 384,588	$ 240,434	$ 384,588
Shareholders' equity	1,362,297	1,425,912	1,362,297	1,425,912
	$ 1,602,731	$ 1,810,500	$ 1,602,731	$ 1,810,500
Average Capital Employed[2]	$ 1,665,677	$ 1,719,860	$ 1,665,677	$ 1,719,860
Return on Capital Employed	4.6%	11.7%	4.6%	11.7%

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

[2] Based on a trailing four-quarter average.

FREE CASH FLOW

($ Canadian thousands)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash provided by operating activities	$ 29,546	$ 64,927	$ 89,497	$ 74,260
Net change in non-cash working capital and other	(403)	36,719	34,289	(7,513)
	$ 29,949	$ 28,208	$ 55,208	$ 81,773
Add-back:				
Net finance costs	4,954	6,168	9,946	12,137
Current income tax expense	7,389	2,539	10,498	8,875
Proceeds on the disposal of property, plant and equipment	77	10	77	96
Proceeds on the disposal of rental equipment	59	247	587	2,910
Deduct:				
Net interest paid	(8,423)	(10,057)	(9,785)	(11,540)
Net cash taxes paid	(2,049)	(1,297)	(2,801)	(7,457)
Expenditure related to finance leases	(14,304)	-	(14,304)	-
Additions to property, plant and equipment	(1,426)	(2,397)	(2,745)	(6,829)
Additions to rental equipment:				
Growth	(12,782)	(27,408)	(22,618)	(88,281)
Maintenance	(1,859)	(2,538)	(3,352)	(4,325)
Dividends paid	(1,794)	(10,313)	(3,587)	(20,625)
Free cash flow	$ (209)	$ (16,838)	$ 17,124	$ (33,266)

For the three months ended June 30, 2021, the outflow of free cash improved compared to the same period in 2020. This improvement is primarily due to reduced growth capital expenditures on the rental fleet and lower property, plant and equipment additions, as well as lower dividends paid. This favorable variance was partially offset by lower cash provided by operating activities before non-cash working capital, and work-in-progress expenditures related to finance leases.

For the six months ended June 30, 2021, free cash flows also improved with reduced additions to fixed assets, lower dividends paid, partially offset by expenditure related to finance leases. 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 June 30, 2021 compared to December 31, 2020:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$(58.7)	The decrease in current assets at June 30, 2021 is primarily due to lower accounts receivable, contract assets, and inventories. Accounts receivable decreased due to the collection of trade receivables and lower activity levels. Contract assets decreased due to reduced activity levels, while Inventories decreased due to the consumption of major equipment inventory into projects. Offsetting these decreases, the Company has invested in an asset that will be accounted for as a finance lease which is presented as Work-in-progress related to finance leases.
Rental equipment	$(17.4)	The decrease in rental equipment is due to depreciation and the weakening of the U.S. dollar at June 30, 2021. This was partially offset by organic additions to rental fleet.
Current liabilities	$(69.6)	The decrease in current liabilities at June 30, 2021 is due to the repayment of $40.0 million debt that had been classified as current at December 31, 2020, and lower accounts payables and deferred revenues on lower overall activity levels.
Long-term debt	$(10.3)	The decrease in long-term debt is due to repayments made on the Bank Facility and the weakening of the U.S. dollar at June 30, 2021, partially offset by drawings on the Asset-Based Facility.
Shareholders' equity before non-controlling interest	$(34.4)	Shareholders' equity before non-controlling interest decreased primarily due to $39.0 million of unrealized loss on translation of foreign operations and foreign denominated debt, and dividends of $3.6 million. This was partially offset by $7.3 million of net earnings.

LIQUIDITY

The Company expects that continued cash flows from operations in 2021, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at June 30, 2021, the Company held cash and cash equivalents of $99.0 million and had cash drawings of $80.4 million against the Bank and Asset-Based Facilities leaving it with access to $684.6 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and the Company's unsecured notes (the "Senior Notes"), with a bank-adjusted net debt to EBITDA ratio, excluding the non-recourse debt, of 1.18:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	2021	2020	2021	2020
Cash, beginning of period	$ 110,642	$ 71,671	$ 95,676	$ 96,255
Cash provided by (used in):				
Operating activities	29,546	64,927	89,497	74,260
Investing activities	(12,036)	(31,578)	(22,715)	(95,313)
Financing activities	(28,795)	(26,359)	(62,540)	3,494
Exchange rate changes on foreign currency cash	(385)	(91)	(946)	(126)
Cash, end of period	$ 98,972	$ 78,570	$ 98,972	$ 78,570

Operating Activities

For the three months ended June 30, 2021, cash provided by operating activities regressed relative to the comparative period. The primary driver of this unfavorable variance is due to significant positive movements in non-cash working capital during Q2 2020 that did not repeat to the same degree during the current quarter. For the six months ended June 30, 2021, cash provided by operating activities was favorable to the comparative period as a result of an improvement in non-cash working capital. Movements in non-cash working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

For the three and six months ended June 30, 2021, cash used in investing activities decreased due to lower capital expenditures on the rental fleet and property, plant and equipment, partially offset by lower proceeds on the disposal of fixed assets.

Financing Activities

For the three months ended June 30, 2021, cash used in financing activities increased primarily due to a repayment of Senior Notes, which was offset by the proceeds on the Asset-Based Facility and lower dividends paid. For the six months ended June 30, 2021, the Company made a repayment of its Senior Notes, which was offset by the proceeds on the Asset-Based Facility, while the 2020 comparative period saw the Company draw additional financing. Cash used in financing activities was further offset by a reduction in dividends paid.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue	Net earnings	Earnings per share – basic	Earnings per share – diluted
June 30, 2021	$ 204,507	$ 4,291	$ 0.05	$ 0.05
March 31, 2021	203,205	3,003	0.03	0.03
December 31, 2020	298,837	32,668	0.36	0.36
September 30, 2020	265,037	10,736	0.12	0.12
June 30, 2020	287,438	7,415	0.08	0.08
March 31, 2020	365,740	37,438	0.42	0.42
December 31, 2019	474,362	31,436	0.35	0.35
September 30, 2019	544,284	63,074	0.71	0.70
June 30, 2019	541,874	40,649	0.45	0.45
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

CAPITAL RESOURCES

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

At June 30, 2021, the Company had drawn $80.4 million against the Bank and Asset-Based Facilities (December 31, 2020 - $84.4 million). The weighted average interest rate on the Bank and Asset-Based Facilities at June 30, 2021 was 1.9 percent and 3.0 percent (December 31, 2020 – 2.3 percent and nil).

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

($ Canadian thousands)		June 30, 2021		December 31, 2020
Drawings on Bank Facility	$	37,156	$	84,369
Drawings on Asset-Based Facility		43,260		-
Senior Notes due June 22, 2021		-		40,000
Senior Notes due December 15, 2024		145,137		148,686
Senior Notes due December 15, 2027		116,758		119,124
Deferred transaction costs		(2,905)		(2,467)
	$	339,406	$	389,712
Current portion of long-term debt	$	-	$	40,000
Non-current portion of long-term debt		339,406		349,712
	$	339,406	$	389,712

At June 30, 2021, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $225.6 million, and $116.8 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no significant changes in the design of the Company's ICFR during the six months ended June 30, 2021 that would materially affect, or is reasonably likely to materially affect, the Company's ICFR. The Company recognizes that employees may be required to change how control activities are performed during offsite work arrangements resulting from the COVID-19 pandemic and has ensured that control objectives are being met during this period.

SUBSEQUENT EVENTS

Subsequent to the end of the quarter, Enerflex declared a quarterly dividend of $0.02 per share, payable on October 7, 2021, to shareholders of record on August 19, 2021. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

Subsequent to June 30, 2021, the Company extended $660.0 million of its Bank Facility to June 30, 2025, under substantially the same terms and 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.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

($ Canadian thousands)	June 30, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	$ 98,972	$ 95,676
Accounts receivable (Note 2)	185,214	213,375
Contract assets (Note 2)	52,960	66,722
Inventories (Note 3)	186,810	212,251
Work-in-progress related to finance leases (Note 3)	14,304	-
Current portion of finance leases receivable (Note 6)	6,734	3,047
Income taxes receivable	15,543	23,718
Derivative financial instruments (Note 15)	72	491
Other current assets	5,044	9,047
Total current assets	565,653	624,327
Property, plant and equipment (Note 4)	97,551	102,636
Rental equipment (Note 4)	620,400	637,814
Lease right-of-use assets (Note 5)	50,714	54,184
Finance leases receivable (Note 6)	56,604	61,227
Deferred tax assets (Note 11)	49,701	48,216
Other assets	50,766	58,600
Intangible assets	13,127	16,544
Goodwill (Note 7)	559,436	576,028
Total assets	$ 2,063,952	$ 2,179,576
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 164,468	$ 182,152
Warranty provision	6,902	10,549
Income taxes payable	3,296	4,387
Deferred revenues (Note 8)	29,054	35,409
Current portion of long-term debt (Note 9)	-	40,000
Current portion of lease liabilities (Note 10)	14,103	14,693
Derivative financial instruments (Note 15)	113	371
Total current liabilities	217,936	287,561
Long-term debt (Note 9)	339,406	349,712
Lease liabilities (Note 10)	44,184	47,233
Deferred tax liabilities (Note 11)	83,996	87,408
Other liabilities	16,133	10,967
Total liabilities	$ 701,655	$ 782,881
Shareholders' equity		
Share capital	$ 375,524	$ 375,524
Contributed surplus	657,725	656,832
Retained earnings	304,747	301,040
Accumulated other comprehensive income	24,301	63,299
Total shareholders' equity	1,362,297	1,396,695
Total liabilities and shareholders' equity	$ 2,063,952	$ 2,179,576

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS *(unaudited)*

($ Canadian thousands, except per share amounts)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Revenue (Note 12)	$ 204,507	$ 287,438	$ 407,712	$ 653,178
Cost of goods sold	148,828	221,638	302,485	493,646
Gross margin	55,679	65,800	105,227	159,532
Selling and administrative expenses	37,934	51,361	80,461	94,873
Operating income	17,745	14,439	24,766	64,659
Gain on disposal of property, plant and equipment (Note 4)	63	10	38	53
Equity earnings (loss) from associate and joint venture	187	979	(225)	728
Earnings before finance costs and income taxes	17,995	15,428	24,579	65,440
Net finance costs (Note 14)	4,954	6,168	9,946	12,137
Earnings before income taxes	13,041	9,260	14,633	53,303
Income taxes (Note 11)	8,750	1,845	7,339	8,450
Net earnings	$ 4,291	$ 7,415	$ 7,294	$ 44,853
Net earnings attributable to:				
Controlling interest	$ 4,291	$ 7,414	$ 7,294	$ 44,683
Non-controlling interest	-	1	-	170
	$ 4,291	$ 7,415	$ 7,294	$ 44,853
Earnings per share – basic	$ 0.05	$ 0.08	$ 0.08	$ 0.50
Earnings per share – diluted	$ 0.05	$ 0.08	$ 0.08	$ 0.50
Weighted average number of shares – basic	89,678,845	89,678,845	89,678,845	89,678,845
Weighted average number of shares – diluted	89,802,486	89,678,845	89,782,907	89,678,845

See accompanying Notes to the interim condensed consolidated financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	2021	2020	2021	2020
Net earnings	$ 4,291	$ 7,415	$ 7,294	$ 44,853
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	78	225	150	157
Gain (loss) on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	32	(172)	(174)	(112)
Unrealized gain (loss) on translation of foreign denominated debt	778	(675)	1,453	(9,504)
Unrealized gain (loss) on translation of financial statements of foreign operations	(18,938)	(38,320)	(40,427)	58,898
Other comprehensive income (loss)	$ (18,050)	$ (38,942)	$ (38,998)	$ 49,439
Total comprehensive income (loss)	$ (13,759)	$ (31,527)	$ (31,704)	$ 94,292
Other comprehensive income (loss) attributable to:				
Controlling interest	$ (18,050)	$ (38,750)	$ (38,998)	$ 49,916
Non-controlling interest	-	(192)	-	(477)
	$ (18,050)	$ (38,942)	$ (38,998)	$ 49,439

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS *(unaudited)*

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	2021	2020	2021	2020
Operating Activities				
Net earnings	$ 4,291	$ 7,415	$ 7,294	$ 44,853
Items not requiring cash and cash equivalents:				
Depreciation and amortization	21,389	21,786	42,461	42,525
Equity (earnings) loss from associate and joint venture	(187)	(979)	225	(728)
Deferred income taxes (Note 11)	1,361	(694)	(3,159)	(425)
Share-based compensation expense (recovery) (Note 13)	3,158	690	8,425	(4,399)
Gain on sale of property, plant and equipment (Note 4)	(63)	(10)	(38)	(53)
	29,949	28,208	55,208	81,773
Net change in non-cash working capital and other (Note 16)	(403)	36,719	34,289	(7,513)
Cash provided by operating activities	$ 29,546	$ 64,927	$ 89,497	$ 74,260
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	$ (1,426)	$ (2,397)	$ (2,745)	$ (6,829)
Rental equipment (Note 4)	(14,641)	(29,946)	(25,970)	(92,606)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)	77	10	77	96
Rental equipment (Note 4)	59	247	587	2,910
Change in other assets	3,895	508	5,336	1,116
Cash used in investing activities	$ (12,036)	$ (31,578)	$ (22,715)	$ (95,313)
Financing Activities				
Proceeds from (repayment of) long-term debt (Note 9)	$ (23,093)	$ (11,460)	$ (50,916)	$ 32,212
Lease liability principal repayment (Note 10)	(3,151)	(3,714)	(6,487)	(6,347)
Lease interest (Note 10)	(757)	(872)	(1,550)	(1,746)
Dividends	(1,794)	(10,313)	(3,587)	(20,625)
Cash provided by (used in) financing activities	$ (28,795)	$ (26,359)	$ (62,540)	$ 3,494
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	$ (385)	$ (91)	$ (946)	$ (126)
Increase (decrease) in cash and cash equivalents	(11,670)	6,899	3,296	(17,685)
Cash and cash equivalents, beginning of period	110,642	71,671	95,676	96,255
Cash and cash equivalents, end of period	$ 98,972	$ 78,570	$ 98,972	$ 78,570

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total shareholders' equity before non-controlling interest	Non-controlling interest	Total
At January 1, 2020	$ 375,524	$ 655,107	$ 228,843	$ 82,760	$ (981)	$ 81,779	$ 1,341,253	$ 1,534	$ 1,342,787
Net earnings	-	-	44,683	-	-	-	44,683	170	44,853
Other comprehensive income (loss)	-	-	-	49,871	45	49,916	49,916	(477)	49,439
Effect of stock option plans	-	940	-	-	-	-	940	-	940
Dividends	-	-	(12,107)	-	-	-	(12,107)	-	(12,107)
At June 30, 2020	$ 375,524	$ 656,047	$ 261,419	$ 132,631	$ (936)	$ 131,695	$ 1,424,685	$ 1,227	$ 1,425,912
At January 1, 2021	$ 375,524	$ 656,832	$ 301,040	$ 63,270	$ 29	$ 63,299	$ 1,396,695	$ -	$ 1,396,695
Net earnings	-	-	7,294	-	-	-	7,294	-	7,294
Other comprehensive income (loss)	-	-	-	(38,974)	(24)	(38,998)	(38,998)	-	(38,998)
Effect of stock option plans	-	893	-	-	-	-	893	-	893
Dividends	-	-	(3,587)	-	-	-	(3,587)	-	(3,587)
At June 30, 2021	$ 375,524	$ 657,725	$ 304,747	$ 24,296	$ 5	$ 24,301	$ 1,362,297	$ -	$ 1,362,297

See accompanying Notes to the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and were approved and authorized for issue by the Board of Directors on August 4, 2021.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2021 and 2020 were prepared in accordance with IAS 34 and do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2020. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements. Certain prior year amounts have been reclassified to conform with the current period's presentation.

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

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consists of the following:

	June 30, 2021	December 31, 2020
Trade receivables	$ 165,174	$ 194,777
Less: allowance for doubtful accounts	(10,398)	(11,439)
Trade receivables, net	$ 154,776	$ 183,338
Other receivables	30,438	30,037
Total accounts receivable	$ 185,214	$ 213,375

Aging of trade receivables:

	June 30, 2021	December 31, 2020
Current to 90 days	$ 124,886	$ 152,285
Over 90 days	40,288	42,492
	$ 165,174	$ 194,777

Movement in allowance for doubtful accounts:

	June 30, 2021	December 31, 2020
Balance, January 1	$ 11,439	$ 2,144
Impairment provision additions on receivables	502	21,072
Amounts settled and derecognized during the period	(1,254)	(11,071)
Currency translation effects	(289)	(706)
Closing balance	$ 10,398	$ 11,439

Movement in contract assets:

	June 30, 2021	December 31, 2020
Balance, January 1	$ 66,722	$ 130,392
Unbilled revenue recognized	103,251	238,300
Amounts billed	(115,959)	(281,145)
Amounts transferred to other assets	-	(26,625)
Currency translation effects	(1,054)	5,800
Closing balance	$ 52,960	$ 66,722

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

NOTE 3. INVENTORIES

Inventories consists of the following:

	June 30, 2021	December 31, 2020
Direct materials	$ 89,504	$ 119,342
Repair and distribution parts	55,810	52,125
Work-in-progress	28,438	25,185
Equipment	13,058	15,599
Subtotal	186,810	212,251
Work-in-progress related to finance leases	14,304	-
Total	$ 201,114	$ 212,251

The amount of inventory and overhead costs recognized as an expense and included in cost of goods for the three and six months ended June 30, 2021 was $148.8 million and $302.5 million (June 30, 2020 – $221.6 million and $493.6 million). Cost of goods sold is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. Cost of goods sold also includes inventory write-downs pertaining to obsolescence and aging together with recoveries of past write-downs upon disposition. The net amount of inventory write-downs charged to the interim condensed consolidated statements of earnings and included in cost of goods sold for three and six months ended June 30, 2021 was $1.0 million and $2.6 million (June 30, 2020 – $0.7 million and $2.1 million).

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and six months ended June 30, 2021, the Company added $1.4 million and $2.7 million in property, plant and equipment (June 30, 2020 – $2.4 million and $6.8 million) and $14.6 million and $26.0 million in rental equipment (June 30, 2020 – $29.9 million and $92.6 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the three and six months ended June 30, 2021 was a decrease of $1.3 million and $2.5 million on property, plant and equipment and a decrease of $5.9 million and $15.7 million on rental equipment (June 30, 2020 – decrease of $4.1 million and $30.4 million; increase of $4.7 million and $23.6 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the three months ended June 30, 2021 was $16.1 million (June 30, 2020 – $16.1 million), of which $15.2 million was included in cost of goods sold (June 30, 2020 – $15.1 million) and $0.9 million was included in selling and administrative expenses (June 30, 2020 – $1.0 million).

Depreciation of property, plant and equipment and rental equipment included in earnings for the six months ended June 30, 2021 was $31.8 million (June 30, 2020 – $31.2 million), of which $30.0 million was included in cost of goods sold (June 30, 2020 – $29.4 million) and $1.8 million was included in selling and administrative expenses (June 30, 2020 – $1.8 million).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three and six months ended June 30, 2021, the Company added $3.0 million and $3.7 million in lease right-of-use assets (June 30, 2020 – $2.1 million and $4.0 million). The impact of foreign exchange movements on lease right-of-use assets denominated in a foreign currency during the three and six months ended June 30, 2021 was a decrease of $0.3 million and $0.6 million (June 30, 2020 – decrease of $0.9 million and an increase of $0.5 million).

Depreciation of lease right-of-use assets included in earnings for the three months ended June 30, 2021 was $3.3 million (June 30, 2020 – $3.5 million), of which $1.7 million was included in cost of goods sold (June 30, 2020 – $1.8 million) and $1.6 million was included in selling and administrative expenses (June 30, 2020 – $1.7 million).

Depreciation of lease right-of-use assets included in earnings for the six months ended June 30, 2021 was $6.7 million (June 30, 2020 – $6.9 million), of which $3.5 million was included in cost of goods sold (June 30, 2020 – $3.6 million) and $3.2 million was included in selling and administrative expenses (June 30, 2020 – $3.3 million).

NOTE 6. FINANCE LEASES RECEIVABLE

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

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

	Minimum lease payments				Present value of minimum lease payments			
		June 30, 2021		December 31, 2020		June 30, 2021		December 31, 2020
Less than one year	$	6,734	$	3,047	$	6,402	$	2,928
Between one and five years		40,877		42,129		32,758		34,020
Later than five years		39,134		45,445		24,178		27,326
	$	86,745	$	90,621	$	63,338	$	64,274
Less: unearned finance income		(23,407)		(26,347)		-		-
	$	63,338	$	64,274	$	63,338	$	64,274

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At June 30, 2021 the average interest rate was 7.5 percent per annum (December 31, 2020 – 7.5 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 7. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		June 30, 2021		December 31, 2020
Balance, January 1	$	576,028	$	573,928
Currency translation effects		(16,592)		2,100
	$	559,436	$	576,028

Goodwill acquired through business combinations was allocated to the USA, Rest of World, and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at December 31, 2020, the result of which was no impairment of goodwill. At June 30, 2021, the Company determined that there were no further indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

NOTE 8. DEFERRED REVENUES

		June 30, 2021		December 31, 2020
Balance, January 1	$	35,409	$	89,409
Cash received in advance of revenue recognition		48,694		247,100
Revenue subsequently recognized		(54,476)		(306,334)
Currency translation effects		(573)		5,234
Closing balance	$	29,054	$	35,409

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

NOTE 9. LONG-TERM DEBT

The amended and restated syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2023 (the "Maturity Date"). The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders. Subsequent to June 30, 2021, the Company extended $660.0 million of its Bank Facility to June 30, 2025. In addition, the Bank Facility may be increased by $150.0 million at the request of the Company, subject to the lenders' consent. There are no required or scheduled principal repayments until the Maturity Date of the Bank Facility.

During the second quarter of 2021, a subsidiary of the Company finalized access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars (the "Asset-Based Facility"). This new credit facility is non-recourse to the Company. Under the terms of the Asset-Based Facility, the Company is required to maintain certain covenants. As at June 30, 2021, the Company was in compliance with these covenants. Pursuant to the terms and conditions of the Asset-Based Facility, a margin is applied to drawings on the Asset-Based Facility in addition to the quoted interest rate. The margin is established as a percentage and is based on a consolidated total funded debt to earnings before finance costs, income taxes, depreciation and amortization ("EBITDA") ratio.

The composition of the borrowings on the Bank Facility, Asset-Based Facility and the Company's senior unsecured notes ("Senior Notes") is as follows:

		June 30, 2021		December 31, 2020
Drawings on Bank Facility	$	37,156	$	84,369
Drawings on Asset-Based Facility		43,260		-
Notes due June 22, 2021		-		40,000
Notes due December 15, 2024		145,137		148,686
Notes due December 15, 2027		116,758		119,124
Deferred transaction costs		(2,905)		(2,467)
	$	339,406	$	389,712
Current portion of long-term debt	$	-	$	40,000
Non-current portion of long-term debt		339,406		349,712
	$	339,406	$	389,712

During the second quarter of 2021, the Company repaid $40.0 million of 6.0 percent senior unsecured notes that were due June 22, 2021. The repayment was financed by cash on hand and drawings on the Bank Facility.

The weighted average interest rate on the Bank Facility for the six months ended June 30, 2021 was 1.9 percent (December 31, 2020 – 2.3 percent). The weighted average interest rate on the Asset-Based Facility for the six months ended June 30, 2021 was 3.0 percent. At June 30, 2021 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $225.6 million, and $116.8 million thereafter.

NOTE 10. LEASE LIABILITIES

	June 30, 2021	December 31, 2020
Balance, January 1	$ 61,926	$ 67,000
Additions	3,522	8,065
Lease interest	1,550	3,371
Payments made against lease liabilities	(8,037)	(16,141)
Currency translation effects and other	(674)	(369)
Closing balance	$ 58,287	$ 61,926
Current portion of lease liabilities	$ 14,103	$ 14,693
Non-current portion of lease liabilities	44,184	47,233
	$ 58,287	$ 61,926

In addition to the lease payments made above, during the three and six months ended June 30, 2021, the Company paid less than $0.1 million and $0.1 million (June 30, 2020 – $0.3 million and $0.6 million) relating to short-term and low-value leases which were expensed as incurred.

During the three and six months ended June 30, 2021, the Company also paid $0.5 million and $1.0 million (June 30, 2020 – $0.3 million and $0.7 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.3 million and $0.5 million (June 30, 2020 – $0.1 million and $0.3 million) are included in cost of goods sold and $0.2 million and $0.5 million (June 30, 2020 – $0.2 million and $0.4 million) are included in selling and administrative expenses.

Interest expense on lease liabilities was $0.8 million and $1.6 million for the three and six months ended June 30, 2021 (June 30, 2020 – $0.9 million and $1.7 million). Total cash outflow for leases for the three and six months ended June 30, 2021 was $4.5 million and $9.1 million (June 30, 2020 – $5.2 million and $9.4 million).

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

	June 30, 2021
2021	$ 8,036
2022	13,747
2023	9,701
2024	6,818
2025	5,324
Thereafter	26,971
	$ 70,597
Less:	
Imputed interest	12,131
Short-term leases	141
Low-value leases	38
	$ 58,287

NOTE 11. INCOME TAXES

(a) Income Tax Recognized in Net Earnings

The components of income tax expense were as follows:

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Current income taxes	$ 7,389	$ 2,539	$ 10,498	$ 8,875
Deferred income taxes	1,361	(694)	(3,159)	(425)
	$ 8,750	$ 1,845	$ 7,339	$ 8,450

(b) Reconciliation of Tax Expense

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Earnings before income taxes	$ 13,041	$ 9,260	$ 14,633	$ 53,303
Canadian statutory rate	23.8%	25.3%	23.8%	25.3%
Expected income tax provision	$ 3,104	$ 2,343	$ 3,483	$ 13,486
Add (deduct):				
Exchange rate effects on tax basis	1,200	(569)	(285)	(4,565)
Earnings taxed in foreign jurisdictions	1,977	(457)	1,373	(1,495)
Withholding tax on dividends received from foreign subsidiaries	2,763	-	2,763	-
Amounts not deductible (taxable) for tax purposes	211	603	358	1,100
Impact of accounting for associates and joint ventures	(44)	(248)	53	(227)
Other	(461)	173	(406)	151
Income tax expense from continuing operations	$ 8,750	$ 1,845	$ 7,339	$ 8,450

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2020 – 15.0 percent) and provincial income tax rates of 8.8 percent (2020 – 10.3 percent). During the fourth quarter of 2020, lower Alberta corporate income tax rates became substantially enacted. The Alberta corporate income tax rates are 9.0 percent for 2020 and 8.0 percent for 2021 and thereafter.

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

NOTE 12. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Engineered Systems	$ 64,998	$ 149,197	$ 137,230	$ 374,590
Service	77,630	77,034	148,166	152,010
Rentals	61,879	61,207	122,316	126,578
Total revenue	$ 204,507	$ 287,438	$ 407,712	$ 653,178

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
United States	$ 105,883	150,571	$ 187,270	$ 326,062
Canada	30,969	37,971	80,217	104,217
Oman	16,561	9,879	33,945	25,959
Australia	15,125	18,137	32,173	35,644
Bahrain	8,554	11,210	15,642	22,599
Argentina	7,991	4,529	14,391	11,063
Mexico	5,935	6,784	12,229	16,680
Colombia	2,580	3,191	7,609	5,570
Brazil	3,532	2,375	7,019	4,680
Bolivia	1,841	1,085	3,567	2,251
Nigeria	2,040	28,863	3,311	80,776
Other	3,496	12,843	10,339	17,677
Total revenue	$ 204,507	$ 287,438	$ 407,712	$ 653,178

The following table outlines the Company's unsatisfied performance obligations, by product line, as at June 30, 2021:

	Less than one year	One to two years	Greater than two years	Total
Engineered Systems	$ 219,562	$ 39,418	$ -	$ 258,980
Service	32,419	11,650	45,342	89,411
Rentals	180,740	109,574	432,198	722,512
	$ 432,721	$ 160,642	$ 477,540	$ 1,070,903

NOTE 13. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense (Recovery)

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

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Equity settled share-based payments	$ 453	$ 473	$ 893	$ 940
Cash settled share-based payments	2,705	217	7,532	(5,339)
Share-based compensation expense (recovery)	$ 3,158	$ 690	$ 8,425	$ (4,399)

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

The company did not grant any CPTs, PSEs, PSUs, RSUs, or options to officers and key employees during the first six months of 2021. The DSU, PSU, and RSU holders had dividends credited to their accounts during the period. The carrying value of the liability relating to cash settled share-based payments at June 30, 2021 included in current liabilities was $4.8 million (December 31, 2020 – $2.1 million) and in other long-term liabilities was $14.1 million (December 31, 2020 - $9.1 million).

(b) Equity-Settled Share-Based Payments

	June 30, 2021		December 31, 2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Options outstanding, beginning of period	4,057,142	$ 12.78	3,565,521	$ 14.67
Granted	-	-	839,478	5.51
Forfeited	-	-	(121,547)	15.20
Expired	-	-	(226,310)	14.33
Options outstanding, end of period	4,057,142	$ 12.78	4,057,142	$ 12.78
Options exercisable, end of period	2,161,222	$ 14.89	1,810,577	$ 14.73

No options were exercised for the three and six months ended June 30, 2021 (June 30, 2020 – nil).

The following table summarizes options outstanding and exercisable at June 30, 2021:

	Options Outstanding			Options Exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price
$5.51 – $12.05	1,322,439	4.26	$ 7.77	482,961	1.01	$ 11.69
$12.06 – $14.75	1,199,061	3.96	13.32	503,127	2.63	13.30
$14.76 – $20.75	1,535,642	2.03	16.68	1,175,134	1.49	16.88
Total	4,057,142	3.33	$ 12.78	2,161,222	1.65	$ 14.89

(c) Cash-Settled Share-Based Payments

During the three and six months ended June 30, 2021, the value of director's compensation and executive bonuses elected to be received in DSUs totalled $0.4 million and $1.1 million (June 30, 2020 - $0.4 million and $1.7 million).

	Number of DSUs		Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2021	1,147,182	$	11.01
Granted	127,017		8.44
In lieu of dividends	5,980		7.51
DSUs outstanding, June 30, 2021	1,280,179	$	10.74

NOTE 14. FINANCE COSTS AND INCOME

	Three months ended June 30,				Six months ended June 30,			
		2021		2020		2021		2020
Finance Costs								
Short and long-term borrowings	$	4,401	$	5,362	$	8,795	$	10,637
Interest on lease liability		757		872		1,550		1,746
Total finance costs	$	5,158	$	6,234	$	10,345	$	12,383
Finance Income								
Bank interest income	$	193	$	45	$	373	$	202
Income from finance leases		11		21		26		44
Total finance income	$	204	$	66	$	399	$	246
Net finance costs	$	4,954	$	6,168	$	9,946	$	12,137

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at June 30, 2021 were designated in the same manner as they were at December 31, 2020. Accordingly, with the exception of the Senior Notes and certain long-term receivables, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Senior Notes as at June 30, 2021 was $261.9 million and $274.5 million, respectively (December 31, 2020 – $307.8 million and $325.2 million, respectively). The fair value of these Senior Notes at June 30, 2021 was determined on a discounted cash flow basis with a weighted average discount rate of 3.6 percent (December 31, 2020 – 3.4 percent).

The Company holds preferred shares that were initially recorded at fair value and subsequently measured at amortized cost and recognized as long-term receivables in Other assets. The carrying value and estimated fair value of the preferred shares at June 30, 2021 was $21.4 million and $25.6 million, respectively (December 31, 2020 – $22.0 million and $25.7 million, respectively).

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at June 30, 2021:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	4,943	July 2021 – January 2022
Sales contracts	USD	(5,101)	July 2021 – October 2021

At June 30, 2021, the fair value of derivative financial instruments classified as financial assets was $0.1 million, and as financial liabilities was $0.1 million (December 31, 2020 – $0.5 million and $0.4 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real. Enerflex uses foreign currency borrowings to hedge against the exposure that arises from foreign subsidiaries that are translated to the Canadian dollar through a net investment hedge. As a result, exchange gains and losses on the translation of $43.0 million U.S. dollars in designated foreign currency borrowings are included in accumulated other comprehensive income for June 30, 2021. The following table shows the sensitivity to a 5.0 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5.0 percent	USD	AUD	BRL
Earnings from foreign operations			
Earnings (loss) before income taxes	$ 709	$ (12)	$ 93
Financial instruments held in foreign operations			
Other comprehensive income	$ 8,277	$ 737	$ 130
Financial instruments held in Canadian operations			
Earnings before income taxes	$ (9,304)	$ -	$ -

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 June 30, 2021 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank Facility and Asset-Based 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 interim condensed consolidated statements of earnings as finance costs.

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank Facility for future drawings to meet the Company's future growth targets. As at June 30, 2021, the Company held cash and cash equivalents of $99.0 million and had drawn $80.4 million against the Bank and Asset-Based Facilities, leaving it with access to $684.6 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility and Notes, with a bank-adjusted net debt to EBITDA ratio, excluding the non-recourse debt, of 1.18:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same time frame.

A liquidity analysis of the Company's financial instruments has been completed on a maturity basis. The following table outlines the cash flows, including interest associated with the maturity of the Company's financial liabilities, as at June 30, 2021:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 101	$ 12	$ -	$ 113
Accounts payable and accrued liabilities	164,468	-	-	164,468
Long-term debt – Bank Facility	-	-	37,156	37,156
Long-term debt – Asset-Based Facility	-	-	43,260	43,260
Long-term debt – Notes	-	-	261,895	261,895
Other long-term liabilities	-	-	16,133	16,133

The Company expects that cash flows from operations in 2021, together with cash and cash equivalents on hand and credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets.

NOTE 16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net change in non-cash working capital and other				
Accounts receivable	$ 2,539	$ 6,228	$ 28,161	$ 60,642
Contract assets	(2,494)	39,262	13,762	59,173
Inventories	18,219	34,441	25,441	(2,721)
Deferred revenue	(745)	10,444	(6,355)	(5,188)
Accounts payable and accrued liabilities, provisions, and income taxes payable	(10,636)	(71,916)	(22,422)	(114,336)
Foreign currency and other	(7,286)	18,260	(4,298)	(5,083)
	$ (403)	$ 36,719	$ 34,289	$ (7,513)

Cash interest and taxes paid and received during the period:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Interest paid – short- and long-term borrowings	$ 7,804	$ 9,233	$ 8,431	$ 9,958
Interest paid – lease liabilities	757	872	1,550	1,746
Total interest paid	$ 8,561	$ 10,105	$ 9,981	$ 11,704
Interest received	138	48	196	164
Taxes paid	7,776	1,297	8,676	7,691
Taxes received	5,727	-	5,875	234

Changes in liabilities arising from financing activities during the period:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Long-term debt, opening balance	$ 362,145	$ 474,388	$ 389,712	$ 430,487
Changes from financing cash flows	(18,392)	649	(43,151)	15,934
The effect of changes in foreign exchange rates	(3,809)	(12,175)	(6,718)	16,361
Amortization of deferred transaction costs	354	230	610	459
Other changes	(892)	66	(1,047)	(83)
Long-term debt, closing balance	$ 339,406	$ 463,158	$ 339,406	$ 463,158

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At June 30, 2021, the Company had outstanding letters of credit of $25.1 million (December 31, 2020 - $47.5 million).

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

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

2021	$ 73,708
2022	2,888
2023	301

NOTE 18. SEASONALITY

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

NOTE 19. SEGMENTED INFORMATION

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate head office. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the type of customer for its products and services, and distribution methods used. For each of the operating segments, the Chief Operating Decision Maker reviews internal management reports on at least a quarterly basis. For the six months ended June 30, 2021, the Company had no individual customers which accounted for more than 10 percent of its revenue. For the six months ended June 30, 2020, the Company recognized $80.2 million of revenue from one customer in the USA and Canada segments, which represented 12.3 percent of total consolidated revenue for the period. At June 30, 2020, amounts owing from the customer included in accounts receivable and contract assets was $33.7 million, which represented 8.9 percent of the total balance of accounts receivable and contract assets.

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

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

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

Three months ended June 30,	USA 2021	USA 2020	Rest of World 2021	Rest of World 2020	Canada 2021	Canada 2020	Total 2021	Total 2020
Segment revenue	$ 120,754	$ 179,440	$ 65,429	$ 59,533	$ 39,128	$ 51,182	$ 225,311	$ 290,155
Intersegment revenue	(15,095)	(2,042)	(34)	-	(5,675)	(675)	(20,804)	(2,717)
Revenue	$ 105,659	$ 177,398	$ 65,395	$ 59,533	$ 33,453	$ 50,507	$ 204,507	$ 287,438
Revenue – Engineered Systems	44,698	113,282	3,642	189	16,658	35,726	64,998	149,197
Revenue – Service	37,195	41,307	24,668	22,850	15,767	12,877	77,630	77,034
Revenue – Rentals	23,766	22,809	37,085	36,494	1,028	1,904	61,879	61,207
Operating income[1]	$ 4,872	$ 6,751	$ 9,355	$ 3,807	$ 3,518	$ 3,881	$ 17,745	$ 14,439

Six months ended June 30,	USA 2021	USA 2020	Rest of World 2021	Rest of World 2020	Canada 2021	Canada 2020	Total 2021	Total 2020
Segment revenue	$ 205,719	$ 408,621	$ 135,946	$ 129,808	$ 90,757	$ 120,535	$ 432,422	$ 658,964
Intersegment revenue	(18,114)	(4,114)	(40)	-	(6,556)	(1,672)	(24,710)	(5,786)
Revenue	$ 187,605	$ 404,507	$ 135,906	$ 129,808	$ 84,201	$ 118,863	$ 407,712	$ 653,178
Revenue – Engineered Systems	73,938	278,898	12,084	6,845	51,208	88,847	137,230	374,590
Revenue – Service	67,309	79,568	50,579	46,730	30,278	25,712	148,166	152,010
Revenue – Rentals	46,358	46,041	73,243	76,233	2,715	4,304	122,316	126,578
Operating income[1]	$ 5,238	$ 44,135	$ 14,083	$ 14,020	$ 5,445	$ 6,504	$ 24,766	$ 64,659

[1] *During the three months and six ended June 30, 2021, the Company recognized $6.4 million and $10.5 million of government grants, respectively (June 30, 2020 – $6.4 million and $6.4 million, respectively). The subsidies received have been recorded as a reduction in cost of goods sold and selling and administrative expense within the interim condensed consolidated statement of earnings in accordance with where the associated expense was recognized.*

	USA Jun. 30, 2021	USA Dec. 31, 2020	Rest of World Jun. 30, 2021	Rest of World Dec. 31, 2020	Canada Jun. 30, 2021	Canada Dec. 31, 2020	Total Jun. 30, 2021	Total Dec. 31, 2020
Segment assets	$ 816,440	$ 895,022	$ 596,018	$ 610,597	$ 516,897	$ 525,510	$ 1,929,355	$ 2,031,129
Goodwill	150,977	155,094	320,092	332,567	88,367	88,367	559,436	576,028
Corporate	-	-	-	-	-	-	(424,839)	(427,581)
Total segment assets	$ 967,417	$ 1,050,116	$ 916,110	$ 943,164	$ 605,264	$ 613,877	$ 2,063,952	$ 2,179,576

NOTE 20. SUBSEQUENT EVENTS

Subsequent to June 30, 2021, Enerflex declared a quarterly dividend of $0.02 per share, payable on October 7, 2021, to shareholders of record on August 19, 2021. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

Subsequent to June 30, 2021, the Company extended $660.0 million of its Bank Facility to June 30, 2025, under substantially the same terms and conditions.

BOARD OF DIRECTORS

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Tampa Bay, FL

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2. Member of the Nominating and Corporate Governance Committee
3. Chair of the Human Resources and Compensation Committee
4. Member of the Human Resources and Compensation Committee
5. Chair of the Audit Committee
6. Member of the Audit Committee
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Abu Dhabi, UAE

GREG STEWART
President, United States of America
Houston, TX

HELMUTH WITULSKI
President, Canada
Calgary, AB

SHAREHOLDERS' INFORMATION

COMMON SHARES

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

TRANSFER AGENT, REGISTRAR, AND DIVIDEND DISBURSING AGENT

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

AUDITORS

Ernst & Young | Calgary, AB, Canada

BANKERS

The Toronto Dominion Bank | Calgary, AB, Canada

The Bank of Nova Scotia | Toronto, ON, Canada

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