ENERFLEX

QUARTERLY REPORT FOR THE THREE MONTHS ENDED JUNE 30, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 10, 2022

The Management's Discussion and Analysis ("MD&A") for Enerflex Ltd. ("Enerflex" or "Company" or "we" or "our") should be read in conjunction with the unaudited interim condensed consolidated financial statements ("Financial Statements") for the three and six months ended June 30, 2022 and 2021, the Company's amended and restated 2021 Annual Report, the Annual Information Form ("AIF") for the year ended December 31, 2021, and the cautionary statement regarding forward-looking information in the "Forward-Looking Statements" section of this MD&A.

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 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 AIF 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)	**2022**	2021[1]	**2022**	2021[1]
Revenue	**$ 372,077**	$ 204,507	**$ 695,146**	$ 407,712
Gross margin	**63,589**	51,102	**117,232**	96,578
Selling and administrative expenses ("SG&A")	**43,346**	33,357	**90,150**	71,812
Operating income	**20,243**	17,745	**27,082**	24,766
Earnings before finance costs and income taxes ("EBIT")	**20,884**	17,995	**28,007**	24,579
Net earnings	**$ 13,352**	$ 4,291	**$ 12,983**	$ 7,294
Key Financial Performance Indicators[2]				
Engineered Systems bookings	**$ 313,310**	$ 154,545	**$ 550,180**	$ 253,237
Engineered Systems backlog	**736,952**	258,980	**736,952**	258,980
Recurring revenue growth[3]	**26.0%**	0.9%	**19.9%**	(2.9)%
Gross margin as a percentage of revenue	**17.1%**	25.0%	**16.9%**	23.7%
EBIT as a percentage of revenue	**5.6%**	8.8%	**4.0%**	6.0%
Earnings before finance costs, income taxes, depreciation and amortization ("EBITDA")	**$ 42,942**	$ 39,384	**$ 71,955**	$ 67,040
Adjusted EBITDA	**44,865**	36,144	**83,604**	65,755
Return on capital employed ("ROCE")[3]	**3.7%**	4.6%	**3.7%**	4.6%
Rental horsepower	**826,691**	780,916	**826,691**	780,916

[1] Certain prior period amounts have been reclassified between cost of goods sold ("COGS") and SG&A following Management's continuing review of the function of expenditures incurred. Please refer to Note 1(b) of the Financial Statements for additional details.
[2] These key financial performance indicators are non-IFRS measures. Further detail is provided in the Non-IFRS Measures section.
[3] Determined by taking the trailing 12-month period.

SECOND QUARTER 2022 OVERVIEW

For the three months ended June 30, 2022:

- Bookings totaled $313.3 million, up significantly from $154.5 million in the same period last year, reflecting the increased activity in our Engineered Systems business, particularly our process and compression packages in the USA and Canada. Movement in foreign exchange rates resulted in an increase of $15.2 million on foreign currency denominated backlog during the second quarter of 2022.
- Engineered Systems backlog at June 30, 2022 was $737.0 million compared to the backlog of $557.5 million at December 31, 2021. This $179.5 million increase is due to the strength of the Engineered Systems bookings in the quarter, which outpaced the revenue recognized in the period. Additionally, there was a favourable foreign exchange impact of $9.2 million.
- The Company recorded significantly higher revenue of $372.1 million in the current quarter compared to $204.5 million in the comparable quarter. This increase is mainly due to a much stronger opening backlog, a considerable increase in Service activities from improved parts sales and customer maintenance activities, as well as higher rental utilizations across all segments.
- Gross margin was $63.6 million or 17.1 percent for the second quarter of 2022 compared to $51.1 million or 25.0 percent for the comparable period. The higher gross margin in the current quarter is primarily due to the increased volume of work. However, the Company reported a lower gross margin percent due to a shift in the product mix, government grants received in the prior year that the Company is no longer eligible for, warranty recoveries recognized in the second quarter of 2021 that did not repeat in the current quarter, and the effect of global supply chain issues and inflation.
- SG&A costs of $43.3 million in the second quarter of 2022 were up from $33.4 million in the same period last year. The increase is primarily due to transaction costs associated with the pending Exterran transaction, higher total compensation, and reduced cost recoveries from government subsidies. These increases are partially offset by lower share-based compensation.
- Operating income of $20.2 million was higher than the prior period, primarily due to the increased gross margin from higher revenue, partially offset by higher SG&A.
- The Company invested $11.7 million towards construction of a natural gas infrastructure asset that was awarded in the fourth quarter of 2021 and will be accounted for as a finance lease. The Company also invested $12.2 million in rental assets; the majority of which was invested to fund the organic expansion of the USA contract compression fleet. At June 30, 2022, the USA contract compression fleet totaled approximately 402,000 horsepower with an average fleet utilization of 94 percent for the quarter.
- The Company continues to maintain a strong balance sheet, with a bank-adjusted net debt to EBITDA ratio is 1.36:1, compared to a maximum ratio of 3:1. This leverage ratio excludes the non-recourse debt. Enerflex currently has substantial undrawn credit capacity and cash on hand.
- Subsequent to June 30, 2022, Enerflex declared a quarterly dividend of $0.025 per share, payable on October 6, 2022, to shareholders of record on August 18, 2022. The Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

For the six months ended June 30, 2022:

- Bookings totaled $550.2 million, up significantly from $253.2 million in the same period last year, reflecting the increased activity in our Engineered Systems business. Movement in foreign exchange rates resulted in an increase of $9.2 million on foreign currency denominated backlog during the first six months of 2022.
- Revenue of $695.1 million is the result of a second straight quarter of strong activity for the Company, combined with a higher opening backlog, a considerable increase in Service activities from improved parts sales and customer maintenance activities, as well as higher rental utilizations, resulting in an increase of $287.4 million when compared to the revenue of $407.7 million in the same period last year.
- Gross margin is $117.2 million or 16.9 percent in the first half of 2022 when compared to the $96.6 million or 23.7 percent in the comparative period. This increase to gross margin is primarily due to the increased volume of work. However, the Company reported a lower gross margin percent due to a shift in the product mix, government grants received in the prior year that the Company is no longer eligible for, warranty recoveries recognized in the second quarter of 2021 that did not repeat in the current quarter.
- SG&A costs of $90.2 million in the first six months of 2022 were up from $71.8 million in the same period last year. This unfavourable variance was the result of transaction costs associated with the pending Exterran transaction, higher total compensation, and reduced cost recoveries from government subsidies. These increases are partially offset by lower share-based compensation.

ADJUSTED EBITDA

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

The items that have historically been adjusted for presentation purposes relate generally to five categories: 1) impairment or gains on idle facilities (not including rental asset impairments); 2) severance costs associated with restructuring activities and cost reduction activities undertaken in response to the COVID-19 pandemic; 3) grants received from Federal governments in response to the COVID-19 pandemic; 4) transaction costs related to mergers and acquisitions activity; and 5) share-based compensation. Enerflex has presented the impact of share-based compensation as it is an item that can fluctuate significantly with share price changes during a period based on external factors that are not specific to the long-term performance 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, 2022
($ Canadian thousands)	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 20,884**	**$ 14,044**	**$ 7,217**	**$ (377)**
Transaction costs	**4,590**	**2,501**	**1,230**	**859**
Share-based compensation	**(2,667)**	**(1,049)**	**(1,149)**	**(469)**
Depreciation and amortization	**22,058**	**11,527**	**8,685**	**1,846**
Adjusted EBITDA	**$ 44,865**	**$ 27,023**	**$ 15,983**	**$ 1,859**

				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

				Six months ended June 30, 2022
($ Canadian thousands)	**Total**	**USA**	**ROW**	**Canada**
Reported EBIT	**$ 28,007**	**$ 14,389**	**$ 17,499**	**$ (3,881)**
Transaction costs	**10,267**	**5,092**	**3,151**	**2,024**
Share-based compensation	**1,382**	**768**	**373**	**241**
Depreciation and amortization	**43,948**	**23,222**	**16,915**	**3,811**
Adjusted EBITDA	**$ 83,604**	**$ 43,471**	**$ 37,938**	**$ 2,195**

($ Canadian thousands)	Total	USA	ROW	Six months ended June 30, 2021 Canada
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

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, while revenue recognized on Engineered Systems products decreases backlog in the period the revenue is recognized. Accordingly, backlog is an indication of revenue to be recognized in future periods.

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

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	**2022**	2021	**2022**	2021
Bookings				
USA	**$ 228,714**	$ 121,409	**$ 406,298**	$ 164,145
Rest of World	**(7,384)**	(623)	**22,544**	40,866
Canada	**91,980**	33,759	**121,338**	48,226
Total bookings	**$ 313,310**	$ 154,545	**$ 550,180**	$ 253,237

($ Canadian thousands)	**June 30, 2022**	December 31, 2021
Backlog		
USA	**$ 478,930**	$ 262,937
Rest of World	**118,097**	179,655
Canada	**139,925**	114,957
Total backlog	**$ 736,952**	$ 557,549

Engineered Systems bookings improved in the second quarter of 2022 compared to the second quarter of 2021, and the first quarter of 2022. The Company's ability to secure a higher volume of projects is a function of robust supply and demand fundamentals in the oil and gas industry currently, as well as capturing the customer demand that has been building during the pandemic. During the second quarter of 2022, the Rest of World ("ROW") segment reallocated a portion of the upfront sale of a previously booked project due to cost savings achieved during construction. As a result, the Company will now recognize this portion as Energy Infrastructure revenue instead of Engineered Systems revenue.

Enerflex's customers remain focused on capital discipline, and there is some uncertainty in the pace of recovery from pandemic lows, as well as uncertainty around energy development due to certain macro-economic pressures in the regions we operate. Enerflex is strategically positioned to benefit over the long term, despite expected volatility in commodity prices and the potential for a global economic slowdown.

Backlog at June 30, 2022 is higher than at December 31, 2021 due to Engineered Systems bookings outpacing revenue recognized in the period, in addition to favourable foreign exchange impacts. The movement in exchange rates resulted in an increase of $15.2 million and $9.2 million during the second quarter and first half of 2022 on foreign currency denominated backlog, compared to a decrease of $0.8 million and $2.1 million in the same periods of 2021.

SEGMENTED RESULTS

Enerflex has identified three reportable operating segments as outlined below, each supported by the Corporate function. Corporate overheads are allocated to the operating segments based on revenue. In assessing its operating segments, the Company considered economic characteristics, the nature of products and services provided, the nature of production processes, the types of customers 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 modular natural gas compression, processing, refrigeration, and electric power equipment, in addition to generating revenue from mechanical services, parts, and maintenance solutions, and contract compression rentals;
- ROW generates revenue from the installation of large-scale process equipment, after-market services, including parts distribution, operations, maintenance, and overhaul services, and rentals of compression and processing equipment. The ROW segment has been successful in securing Build-Own-Operate-Maintain ("BOOM") and integrated turnkey ("ITK") projects; and
- Canada generates revenue from manufacturing 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, 2022	2021	Six months ended June 30, 2022	2021
Engineered Systems bookings	**$ 228,714**	$ 121,409	**$ 406,298**	$ 164,145
Engineered Systems backlog	**478,930**	166,985	**478,930**	166,985
Segment revenue	**$ 226,087**	$ 120,754	**$ 408,842**	$ 205,719
Intersegment revenue	**(28,733)**	(15,095)	**(64,024)**	(18,114)
Revenue	**$ 197,354**	$ 105,659	**$ 344,818**	$ 187,605
Revenue – Engineered Systems	**$ 112,673**	$ 44,698	**$ 190,305**	$ 73,938
Revenue – Service	**$ 53,105**	$ 37,195	**$ 95,354**	$ 67,309
Revenue – Energy Infrastructure	**$ 31,576**	$ 23,766	**$ 59,159**	$ 46,358
Operating income	**$ 14,044**	$ 4,872	**$ 14,389**	$ 5,238
EBIT	**$ 14,044**	$ 4,880	**$ 14,389**	$ 5,246
EBITDA	**$ 25,571**	$ 15,226	**$ 37,611**	$ 25,796
USA revenue as a % of consolidated revenue	**53.0%**	51.7%	**49.6%**	46.0%
Recurring revenue growth	**38.9%**	(4.9)%	**35.9%**	(9.5)%
Operating income as a % of revenue	**7.1%**	4.6%	**4.2%**	2.8%
EBIT as a % of revenue	**7.1%**	4.6%	**4.2%**	2.8%
EBITDA as a % of revenue	**13.0%**	14.4%	**10.9%**	13.8%

USA recorded Engineered Systems bookings of $228.7 million in the second quarter of 2022, which is a healthy increase of $107.3 million compared to the same period in the prior year. The Company booked a significant number of projects as a result of improved activity levels in the oil and natural gas industry. With activity levels and demand for our products improving, the Company is seeing an increase in sold margins. However, the competition for bookings and pricing pressures remains high, which will continue to put pressure on margins even as the bookings recover.

Revenue increased by $91.7 million and $157.2 million in the second quarter and first half of 2022 compared to last year. This increase is primarily due to much higher Engineered Systems revenue on improved activity levels and stronger opening backlog, higher Service revenues on increased parts sales and volume of work, and higher Energy Infrastructure revenue from improved utilizations. Gross margin increased in the second quarter and first half of 2022 compared to last year, attributable to the increased activity and higher revenues in all product lines.

SG&A was higher in the second quarter and first half of 2022 compared to the same periods last year as a result of increased total compensation on increased headcount and allocated transaction costs related to the previously announced Exterran transaction, partially offset by lower share-based compensation.

Operating income was higher during the three and six months ended June 30, 2022 when compared to the comparable periods due to higher gross margins compared to the prior year due to significantly higher revenue in all three product lines, partially offset by higher SG&A. To date, the Company has been able to mitigate supply chain challenges and inflationary pressures by proactively working with customers and vendors where possible, which includes activating certain contract clauses to increase our cost recoveries and reviewing rates and pricing practices to better align with the market.

At June 30, 2022, the USA contract compression fleet totaled approximately 402,000 horsepower, compared to approximately 400,000 horsepower at December 31, 2021. The average utilization of the USA contract compression fleet for the three months and six months ended June 30, 2022 was 94 percent and 93 percent, compared to 85 percent and 84 percent in the comparative periods in 2021.

REST OF WORLD SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Engineered Systems bookings	**$ (7,384)**	$ (623)	**$ 22,544**	$ 40,866
Engineered Systems backlog	**118,097**	44,958	**118,097**	44,958
Segment revenue	**$ 104,125**	$ 65,429	**$ 213,519**	$ 135,946
Intersegment revenue	**(111)**	(34)	**(189)**	(40)
Revenue	**$ 104,014**	$ 65,395	**$ 213,330**	$ 135,906
Revenue – Engineered Systems	**$ 34,810**	$ 3,642	**$ 84,102**	$ 12,084
Revenue – Service	**$ 31,861**	$ 24,668	**$ 54,895**	$ 50,579
Revenue – Energy Infrastructure	**$ 37,343**	$ 37,085	**$ 74,333**	$ 73,243
Operating income	**$ 7,217**	$ 9,355	**$ 17,499**	$ 14,083
EBIT	**$ 7,217**	$ 9,410	**$ 17,499**	$ 14,113
EBITDA	**$ 15,902**	$ 18,597	**$ 34,414**	$ 32,184
ROW revenue as a % of consolidated revenue	**28.0%**	32.0%	**30.7%**	33.3%
Recurring revenue growth	**12.1%**	4.1%	**4.4%**	0.7%
Operating income as a % of revenue	**6.9%**	14.3%	**8.2%**	10.4%
EBIT as a % of revenue	**6.9%**	14.4%	**8.2%**	10.4%
EBITDA as a % of revenue	**15.3%**	28.4%	**16.1%**	23.7%

Engineered Systems bookings were lower in the second quarter of 2022 compared to the same period of 2021 by $6.8 million which is a result of a reallocation of a portion of the upfront sale of a previously booked project due to cost savings achieved during construction. The Company will now recognize this portion as Energy Infrastructure revenue instead of Engineered Systems revenue. Furthermore, this reallocation will not impact our cash inflows and the Company's rate of return on this project has improved as a result. Removing the impact of this shift between the Engineered Systems and Energy Infrastructure product line, bookings were nominal. Bookings for the first half of 2022 were lower than the same period of 2021 due to a booking for a previously announced 10-year natural gas infrastructure contract that was awarded to Enerflex during the second quarter of 2021 and commenced operations during the first quarter of 2022. Engineered Systems bookings in the ROW segment are typically larger in nature and scope and as a result are less frequent.

During the three and six months ended June 30, 2022, ROW revenues increased by $38.6 million and $77.4 million when compared to the same periods last year. This is driven by the increase in Engineered Systems revenue, primarily as a result of a 10-year natural gas infrastructure project in the Middle East that began operations at the beginning of the year and has been accounted for as a finance lease. Service revenues have improved in the region, primarily due to improved parts sales. Energy Infrastructure revenues slightly increased during the second quarter and first half of 2022, supported by the interest income on the aforementioned finance lease project and better utilizations. Gross margin decreased in the second quarter of 2022 compared to last year despite the increased revenues. This decrease is the result of availability bonuses achieved in the comparative period that did not repeat in the current year. Gross margin increased in the first half of 2022 compared to the same period last year on higher revenues across all product lines, partially offset by the availability bonus in 2021 that did not repeat, as well as the impact of supply chain disruptions and inflation.

SG&A increased in the second quarter and first half of 2022 compared to the same periods last year, primarily due to the segment's allocated share of transaction costs related to the previously announced Exterran transaction, and increased total compensation expense, partially offset by lower share-based compensation.

Operating income decreased by $2.1 million in the second quarter of 2022 compared to the same period in 2021 due to lower gross margins and slightly higher SG&A costs. Operating income increased by $3.4 million in the first half of 2022 on higher gross margin, partially offset by the availability bonus that did not repeat, and higher SG&A.

CANADA SEGMENT RESULTS

($ Canadian thousands)	Three months ended June 30, 2022	2021	Six months ended June 30, 2022	2021
Engineered Systems bookings	**$ 91,980**	$ 33,759	**$ 121,338**	$ 48,226
Engineered Systems backlog	**139,925**	47,037	**139,925**	47,037
Segment revenue	**$ 73,205**	$ 39,128	**$ 140,329**	$ 90,757
Intersegment revenue	**(2,496)**	(5,675)	**(3,331)**	(6,556)
Revenue	**$ 70,709**	$ 33,453	**$ 136,998**	$ 84,201
Revenue – Engineered Systems	**$ 48,863**	$ 16,658	**$ 96,370**	$ 51,208
Revenue – Service	**$ 20,873**	$ 15,767	**$ 38,776**	$ 30,278
Revenue – Energy Infrastructure	**$ 973**	$ 1,028	**$ 1,852**	$ 2,715
Operating income (loss)	**$ (1,018)**	$ 3,518	**$ (4,806)**	$ 5,445
EBIT	**$ (377)**	$ 3,705	**$ (3,881)**	$ 5,220
EBITDA	**$ 1,469**	$ 5,561	**$ (70)**	$ 9,060
Canada revenue as a % of consolidated revenue	**19.0%**	16.4%	**19.7%**	20.7%
Recurring revenue growth	**30.1%**	13.6%	**23.1%**	9.9%
Operating income (loss) as a % of revenue	**(1.4)%**	10.5%	**(3.5)%**	6.5%
EBIT as a % of revenue	**(0.5)%**	11.1%	**(2.8)%**	6.2%
EBITDA as a % of revenue	**2.1%**	16.6%	**(0.1)%**	10.8%

Bookings in the second quarter of 2022 increased to $92.0 million from $33.8 million in the comparable period. Canada recorded a number of compression and process bookings in the period, and included orders for electric power generated equipment. Enerflex remains cautiously optimistic as the recovery in this segment has been slower than the other segments with producers maintaining capital discipline. The Company is confident that robust commodity prices will translate into new bookings for the second half of 2022, and remains well positioned to capitalize on pending projects. Competition for bookings and pricing pressures for the Canadian region continue to remain high, which will continue to put pressure on margins on new bookings.

Revenue increased by $37.3 million and $52.8 million during the second quarter and first half of 2022 compared to the same periods last year. This improvement is primarily due to higher Engineered Systems revenue based on the strength of higher opening backlog. Service revenues have increased due to higher customer maintenance activities and parts sales. Energy Infrastructure revenue decreased due to lower utilization of available rental units based on lower demand. Canada experienced a decrease in gross margins in the second quarter and first half of 2022 compared to the same periods last year, primarily driven by reduced government grants, continued pressure on project margins, and margin erosion from unanticipated cost overruns. The region has begun to implement mitigation strategies against supply chain challenges and cost escalations from inflation by proactively engaging with vendors and customers where possible by reviewing current contract agreements.

SG&A was higher in the second quarter and first half of 2022 compared to the same periods last year as a result of the segment's allocated share of transaction costs related to the previously announced Exterran transaction, reduced government grants, and higher total compensation, partially offset by share-based compensation.

The Canadian segment recorded an operating loss of $1.0 million and $4.8 million for the second quarter and first half of 2022 compared to operating income of $3.5 million and $5.4 million in the same periods of 2021. The decrease is primarily due to lower gross margins and higher SG&A costs.

GROSS MARGIN BY PRODUCT LINE

Enerflex operates three business segments, and each regional business segment has three main product lines: Engineered Systems, Service, and Energy Infrastructure. The Engineered Systems product line consists of the supply of equipment systems, typically involving engineering, design, manufacturing, construction, installation, and the start-up of equipment. The Service product line provides after-market services, parts distribution, operations and maintenance solutions, equipment optimization and maintenance programs, manufacturer warranties, exchange components, and technical services. The Energy Infrastructure product line encompasses a fleet of natural gas compression, processing, and electric power equipment totalling over 825,000 horsepower available for rent or lease; generating revenue from rental and lease agreements, and the sale of rental equipment to customers. In addition to Enerflex's rental fleet, the Company's Energy Infrastructure product line provides customers with personnel, equipment, tools, materials, and supplies to meet their natural gas compression, processing, and electric power needs, as well as designing, sourcing, owning, installing, operating, servicing, repairing, and maintaining equipment owned by the Company necessary to provide these services, including providing operation and maintenance as part of a BOOM agreement.

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

				Three months ended June 30, 2022
($ Canadian thousands)	**Total**	**Engineered Systems**	**Service**	**Energy Infrastructure**
Revenue	**$ 372,077**	**$ 196,346**	**$ 105,839**	**$ 69,892**
Cost of goods sold:				
Operating expenses	**289,410**	**175,547**	**87,125**	**26,738**
Depreciation and amortization	**19,078**	**1,081**	**2,373**	**15,624**
Gross margin	**$ 63,589**	**$ 19,718**	**$ 16,341**	**$ 27,530**
Gross margin %	**17.1%**	**10.0%**	**15.4%**	**39.4%**

				Three months ended June 30, 2021[1]
($ Canadian thousands)	Total	Engineered Systems	Service	Energy Infrastructure
Revenue	$ 204,507	$ 64,998	$ 77,630	$ 61,879
Cost of goods sold:				
Operating expenses	134,905	52,432	61,373	21,100
Depreciation and amortization	18,500	2,027	2,320	14,153
Gross margin	$ 51,102	$ 10,539	$ 13,937	$ 26,626
Gross margin %	25.0%	16.2%	18.0%	43.0%

($ Canadian thousands)		Total		Engineered Systems		Service		Six months ended June 30, 2022 Energy Infrastructure
Revenue	$	**695,146**	$	**370,777**	$	**189,025**	$	**135,344**
Cost of goods sold:								
Operating expenses		**539,950**		**330,298**		**157,381**		**52,271**
Depreciation and amortization		**37,964**		**3,527**		**5,052**		**29,385**
Gross margin	$	**117,232**	$	**36,952**	$	**26,592**	$	**53,688**
Gross margin %		**16.9%**		**10.0%**		**14.1%**		**39.7%**

($ Canadian thousands)		Total		Engineered Systems		Service		Six months ended June 30, 2021[1] Energy Infrastructure
Revenue	$	407,712	$	137,230	$	148,166	$	122,316
Cost of goods sold:								
Operating expenses		274,840		113,942		117,284		43,614
Depreciation and amortization		36,294		4,099		4,491		27,704
Gross margin	$	96,578	$	19,189	$	26,391	$	50,998
Gross margin %		23.7%		14.0%		17.8%		41.7%

[1] *Certain prior period amounts have been reclassified between COGS and SG&A. Please refer to Note 1(b) of the Financial Statements for additional details.*

INCOME TAXES

Income tax expense totaled $3.1 million and $6.7 million for the second quarter and first half of 2022, compared to a $8.8 million and $7.3 million in the same periods of 2021. Income tax expense for the second quarter and first half of 2022 was lower due to the effect of earnings taxed in foreign jurisdictions, no withholding tax paid on dividends received in the year, and the exchange rate effects on tax basis, partially offset by the Company no longer recognizing any deferred tax asset in Canada. The Company is no longer recognizing deferred tax recoveries in Canada, as it is unlikely that sufficient future taxable income will be available to offset against the existing deductible temporary differences and any unused Canadian tax losses or credits.

EXTERRAN TRANSACTION UPDATE

On January 24, 2022, the Company announced the proposed acquisition (the “Transaction”) of Exterran Corporation (“Exterran”), in which Enerflex would acquire all of the outstanding shares of common stock of Exterran by issuing 1.021 common shares of Enerflex in exchange for each share of Exterran. The closing of the Transaction is subject to obtaining regulatory approvals and approval by shareholders of Enerflex and Exterran, and satisfying other conditions that are customary for a transaction of this type, which are fully described in the Merger Agreement that has been entered into by Enerflex, Enerflex US Holdings Inc., and Exterran (the "Merger Agreement") and is available under Enerflex's SEDAR profile at www.sedar.com.

The Company continues to progress all matters that need to be addressed to close the Transaction. A number of the required regulatory approvals have been obtained and the Company continues to pursue the approval required from the Securities and Exchange Commission ("SEC") in connection with the registration of the common shares of Enerflex in the United States.

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

Following the execution of the Merger Agreement, Exterran advised Enerflex that the Local Labor Board of the State of Tabasco in Mexico (the "Labor Board") had awarded (the "Labor Board Decision") a former employee of one of Exterran's Mexican subsidiaries approximately US$120 million in connection with a dispute (the "Dispute") substantially relating to such former employee's (i) severance pay following their termination of employment; and (ii) alleged differences in salary payments.

Exterran has filed an appeal of the Labor Board Decision to the federal appellate court in Mexico (the "Appeals Court") and is of the view that the Labor Board erred in granting such award and that the award has no credible basis in law or fact. Exterran has publicly disclosed that it has already paid the employee the undisputed portion of their severance pay, as previously determined by the Labor Board based on company records, and that the Labor Board Decision contradicts earlier court rulings. According to Exterran, among other errors that are the subject of the appeal is the Labor Board's (a) violation of principles of res judicata by disregarding prior court decisions establishing that the former employee's salary was roughly $3,500 MXN per day (approximately US$170 per day), (b) ignoring the applicable one-year statute of limitations in these types of matters, and (c) awarding of salary differences that were never part of the former employee's original or subsequent claims.

Exterran has disclosed that although it may incur some loss with respect to such matter, the ultimate resolution of this matter will not be material to Exterran.

Enerflex has been regularly communicating with Exterran regarding the Dispute since the time that the Company was made aware of it and has engaged and sought advice from legal counsel, including two separate expert legal litigation counsel in Mexico, to assist the Company in evaluating the Dispute and the impact on Exterran, Enerflex, the potentially combined entity, and the Transaction in the event that the Labor Board Decision is not reversed.

Since announcing the Transaction, both Enerflex and Exterran have reported better than expected financial results; driven by strengthened bookings and macroeconomic conditions. In addition, interest rates have risen, the timing of expected expenditures has been delayed and the timing associated with tax payments has been revised. Accordingly, the Company has updated its expectations for the following pro forma Transaction-related metrics:

	Transaction-related Guidance as at June 30, 2022[1]
Leverage	Enerflex will target a bank-adjusted net debt to EBITDA ratio of less than 2.5 times within 12 to 18 months of closing, which represents an improvement from the previously announced net debt to EBITDA ratio of 2.5x - 3.0x withing 12 to 18 months of closing.
Improved Operational Efficiencies	Expect to realize at least US$60 million of annual run-rate synergies within 12 to 18 months of closing, primarily achieved through overhead savings and operating efficiencies. This represents an increase from the previously announced US$40 million of annual-run rate synergies within 12 to 18 months of closing.
Gross Margin	2022 estimated consolidated gross margin: US$540 - US$600 million, which represents an increase from the previously announced US$500 - US$600 million.
Enhanced Scale	• 2022 estimated adjusted EBITDA (inclusive of synergies): US$355 - US$405 million, which represents an increase from the previously announced US$320 - US$370 million. • 2023 estimated adjusted EBITDA (inclusive of synergies): US$380 - US$420 million, which represents an increase from the previously announced US$360 - US$400 million.
Capital Expenditures and WIP	• 2022 estimated maintenance capital expenditures: US$40 - US$50 million, which is in line with previously announced guidance. • 2022 estimated growth capital expenditures: US$200 - US$220 million. • 2022 estimated WIP: US$180 - US$200 million, which has decreased from the previously announced US$200 - US$225 million. • 2023 estimated maintenance capital expenditures: US$40 - US$50 million.
Total Expenditures	• 2022 estimated total expenditures: US$470 - US$500 million, which represents a decrease from the previously announced US$500 - US$525 million. • 2023 estimated total expenditures: US$170 - US$210 million, which represents an increase from the previously announced US$120 - US$160 million.
Accretion to Enerflex Shareholders	Expected doubling of adjusted EBITDA and approximately 20% accretive to earnings per share and approximately 11% accretive to cash flow per share (subject to purchase price allocation to be determined upon closing), for Enerflex shareholders. This represents a decrease from the previously announced accretion to earnings per share and cash flow per share of 50%, primarily due to increased interest expense and timing associated with taxes.

(1) See the news release and the investor presentation, both dated January 24, 2022, available on Enerflex's website at www.enerflex.com and under Enerflex's SEDAR profile at www.sedar.com for previously announced transaction-related guidance.

OUTLOOK

Commodity prices have strengthened significantly over the course of the last year, given improved supply/demand fundamentals and a renewed focus on global energy security considering Russia's invasion of Ukraine. As a result, the balance sheets and free-cash-flow positions of exploration and production ("E&P") and midstream companies have improved considerably. Enerflex expects its customers in certain regions to increase their capital expenditure programs modestly, a trend reflected in the recent improvement in the Company's Engineered Systems bookings.

An "Energy Transition" towards less carbon-intensive energy sources is underway and presents new opportunities for the Company to leverage its strength in providing modularized engineer-to-order process solutions. The Company is working with new and existing customers to advance projects that: decarbonize core operations, provide a path for electrification, capture carbon, build infrastructure for Renewable Natural Gas ("RNG") and biofuels, and develop new hydrogen opportunities.

Enerflex remains focused on providing a safe working environment for all employees, ,maintaining a strong balance sheet, and positioning the Company to capitalize on increased industry spending. The Company continuously assesses profitable growth opportunities while balancing the expected impacts of broader market factors against the projected increases in demand for natural gas, particularly as an energy transition fuel to support global decarbonization efforts. Enerflex continues to assess the effects of these contributing factors and the corresponding impact on customer activity levels, which will drive the demand for the Company's products and services in future periods.

OUTLOOK BY SEGMENT

USA

The market fundamentals for Enerflex's USA segment continue to improve. Commodity prices are robust, with NYMEX Henry Hub averaging greater than US$7 per MMBtu and WTI averaging over US$100 per barrel during the second quarter of 2022, driving increased producer activity and rig counts, and accordingly, the demand for Enerflex's products and services. The growing need for energy security has led to a structurally tight global commodity complex. Enerflex is strategically positioned to benefit over the long term, despite expected volatility in commodity prices and the potential for a global economic slowdown.

Recurring revenue generated by the Company's after-market service and contract compression product lines is stable, and contract compression utilization rates are at historic levels. Despite broad-based Original Equipment Manufacturers ("OEM") supply chain challenges and inflationary operating cost pressures, the demand for after-market service for equipment maintenance is strong.

Growth in Energy Transition initiatives may provide further opportunities in the USA segment. Enerflex's customers are adopting electric motor drive compression to eliminate Scope 1 emissions from engine-driven compression, thereby improving their emissions profiles. Additional carbon capture opportunities are supported through the federal government's 45-Q tax incentive. Low-carbon fuel initiatives are also being adopted across the USA, potentially increasing demand for modular equipment solutions.

Rest of World

In the ROW segment, the Company expects to continue generating strong recurring revenues in the Middle East and Latin America regions through its existing rental fleet and new large-scale, long-term projects. The construction for the previously announced 10-year natural gas infrastructure contract is well underway, consisting of two projects in the Middle East. These investments are on track to become fully operational in late 2022.

The Company continues to observe the demand for large-scale, long-term rental assets and ITK projects in the Middle East. The Company continues to explore new markets and opportunities within this region, focusing on projects that require products that Enerflex engineers and manufactures and generates long-term stable cash flows.

In Latin America, many countries have indicated a renewed desire to develop oil and natural gas to support the rising need for reliable power. The Company is well-positioned to provide products and services throughout the region and has observed increased activity in key markets like Argentina, Bolivia, Brazil, Colombia, and Mexico.

In Australia, the demand for Enerflex service and maintenance support is robust given the strength of the region's liquified natural gas ("LNG") export market. Further, the downward pressure on production costs being felt by customers is increasing their desire to improve equipment reliability and efficiency, for which Enerflex is well-positioned to support. Demand for capital equipment has recently experienced a slowdown in response to the current economic environment; however, customers continue to pursue new opportunities.

Canada

While Canadian producers continue to exhibit capital discipline, favouring dividends and share buybacks over increased production, Enerflex believes that a sustained increase in rig count and robust commodity prices are positive indicators for this region. The Company is well-positioned to capitalize on natural gas liquids production growth within the Western Canadian Sedimentary Basin and has secured several orders for electric power generation equipment in 2022.

Performance from the Service product line was muted in early 2022; however, Enerflex has experienced an increase in activity that is expected to continue through the remainder of the year. The Company also continues to mitigate broad-based OEM supply chain challenges and inflationary pressures that have resulted in increased parts costs, late delivery of parts and components, and increased operating costs.

The Company continues to evaluate various Energy Transition opportunities in Canada. To date, discussions have centered around carbon capture and biofuels, both dependent on supporting government policy like the CCUS Investment Tax Credit. The federal and provincial governments are also evaluating hydrogen strategies which could present a growth market for Enerflex.

ENERFLEX STRATEGY

Enerflex's vision of *"Transforming Energy for a Sustainable Future"* is supported by a long-term strategy founded upon the following key pillars: technical excellence in modular energy systems; profitable growth achieved through vertically integrated and geographically diverse product offerings; financial strength and discipline; and sustainable returns to shareholders. Through consistent execution of its long-term strategy, and regular evaluation of its capital allocation priorities and decisions, Enerflex has managed a resilient business to create shareholder value over its 42-year history.

Enerflex leverages its strong presence in growing natural gas markets to offer vertically integrated compression, processing, and electric power solutions, spanning all phases of a project's lifecycle, from front-end engineering and design to after-market service. The Company is also strategically positioned to participate meaningfully in global decarbonization efforts, working closely with customers across the globe as they strive to reduce their emissions profiles. Enerflex has proven expertise in delivering practical solutions to enable the energy transition, including carbon capture utilization and storage, electrification, RNG, and hydrogen solutions.

Enerflex continues to focus on growing recurring revenues generated from its Energy Infrastructure and Service product lines to enhance corporate gross margins and stabilize its revenue profile over the long term. The Company anticipates that the previously announced Exterran transaction will accelerate its ability to deliver on this strategy.

To support its overarching corporate strategy, Enerflex has developed region-specific strategies:

USA

In the USA segment, Enerflex provides natural gas solutions to support the development of the upstream resources and midstream infrastructure required to meet local demand and the demand from a growing LNG export industry.

- **Energy Infrastructure**: Enerflex invests in the organic expansion of its contract compression fleet by engineering, designing, building, and renting out contract compression units.
- **Service**: Enerflex focuses on servicing a large installed base of compression solutions in a cost-effective manner.
- **Engineered Systems**: Enerflex engineers, designs, and manufactures modularized compression, processing, and electric power solutions.

Rest of World

In the ROW segment, Enerflex focuses primarily on long-term growth opportunities in the Middle East and Latin America through energy infrastructure ownership.

- **Energy Infrastructure**: Enerflex targets long-term BOOM solutions and other infrastructure leases of varying size and scope, as these projects support Enerflex's strategy to grow recurring revenues.
- **Service**: Enerflex leverages its large Energy Infrastructure and Engineered Systems footprint to grow its after-market service capabilities.
- **Engineered Systems**: Enerflex delivers electric power solutions to meet the rising need for reliable power, and engineers, designs, and manufactures compression and processing solutions which require construction and installation support at site.

Canada

In the Canada segment, Enerflex continues to evaluate opportunities to expand its 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 to meet increasing demand for natural gas-fired power generation.

- **Energy Infrastructure**: Enerflex concentrates on reciprocating and rotary screw natural gas compression packages, and electric power equipment rentals.
- **Service**: Enerflex prioritizes securing long-term service and maintenance contracts with customers to grow the region's recurring revenue profile.
- **Engineered Systems**: In addition to offering extensive compression and processing solutions, Enerflex looks to expand its electric power offerings to meet the strong local demand for natural gas-fired power generation.

Enerflex will continue diversifying its revenue streams from multiple markets, growing its backlog, and ensuring strong profit margins through diligent cost control efforts. Enerflex is focused on increasing its recurring revenues by 10 percent annually while targeting a 10 percent EBIT margin over the medium term.

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)	**2022**	2021	**2022**	2021
EBITDA				
EBIT	**$ 20,884**	$ 17,995	**$ 28,007**	$ 24,579
Depreciation and amortization	**22,058**	21,389	**43,948**	42,461
EBITDA	**$ 42,942**	$ 39,384	**$ 71,955**	$ 67,040
Recurring Revenue				
Service	**$ 105,839**	$ 77,630	**$ 189,025**	$ 148,166
Energy Infrastructure	**69,892**	61,879	**135,344**	122,316
Total Recurring Revenue	**$ 175,731**	$ 139,509	**$ 324,369**	$ 270,482
ROCE				
Trailing 12-month EBIT	**$ 58,525**	$ 77,191	**$ 58,525**	$ 77,191
Capital Employed – beginning of period				
Net debt[1]	**$ 205,912**	$ 251,503	**$ 158,664**	$ 294,036
Shareholders' equity	**1,342,102**	1,377,396	**1,353,754**	1,396,695
	$ 1,548,014	$ 1,628,899	**$ 1,512,418**	$ 1,690,731
Capital Employed – end of period				
Net debt[1]	**$ 198,873**	$ 240,434	**$ 198,873**	$ 240,434
Shareholders' equity	**1,378,897**	1,362,297	**1,378,897**	1,362,297
	$ 1,577,770	$ 1,602,731	**$ 1,577,770**	$ 1,602,731
Average Capital Employed[2]	**$ 1,568,820**	$ 1,665,677	**$ 1,568,820**	$ 1,665,677
Return on Capital Employed	**3.7%**	4.6%	**3.7%**	4.6%

[1] *Net debt is defined as short- and long-term debt less cash and cash equivalents.*
[2] *Based on a trailing four-quarter average.*

FINANCIAL POSITION

The following table outlines significant changes in the Statements of Financial Position as at June 30, 2022 compared to December 31, 2021:

($ Canadian millions)	Increase (Decrease)	Explanation
Current assets	$71.0	The increase in current assets is primarily due to higher accounts receivable, inventories, and contract assets and work-in-progress related to finance leases from increased activity levels. Partially offsetting these increases is a reduction in cash and cash equivalents.
Rental equipment	$(4.2)	Rental equipment decreased primarily due to depreciation, disposals, and impairments offsetting additions, and the favourable impact of foreign exchange. The additions are primarily for the contract compression fleet in the USA.
Finance leases receivable	$30.1	The increase in the long-term portion of finance leases receivable is due to the recognition of a 10-year natural gas infrastructure project in the Middle East that began operations during the first quarter of 2022.
Current liabilities	$73.4	The increase in current liabilities is primarily driven by increases in accounts payable and accrued liabilities, and deferred revenues, which is driven by the increased level of activity.
Long-term debt	$9.8	The increase in long-term debt is primarily due to the net proceeds received from the Bank Facility, the unfavourable impact of foreign exchange, and the amortization of deferred transactions costs, partially offset by net repayments on the Asset-Based Facility.
Total shareholders' equity	$25.1	Shareholders' equity increased primarily due to the $15.7 million impact on unrealized gains on the translation of foreign operations and foreign denominated debt, net earnings of $13.0 million, and $0.9 million of stock options, offset by dividends of $4.5 million.

CAPITAL EXPENDITURES AND EXPENDITURES FOR FINANCE LEASES

Enerflex distinguishes capital expenditures on rental equipment as either growth or maintenance. Growth expenditures are intended to expand the Company's rental fleet, while maintenance expenditures are necessary costs to continue utilizing existing rental equipment.

Capital expenditures are calculated in the table below:

	Three months ended June 30,		Six months ended June 30,	
($ Canadian thousands)	**2022**	2021	**2022**	2021
Additions to property, plant and equipment	**$ 2,092**	$ 1,426	**$ 2,991**	$ 2,745
Additions to rental equipment:				
Growth	**7,896**	12,782	**8,931**	22,618
Maintenance	**4,259**	1,859	**5,764**	3,352
Total capital expenditures	**$ 14,247**	$ 16,067	**$ 17,686**	$ 28,715

The Company also incurs costs related to the construction of rental assets determined to be finance leases. These costs are accounted for as work-in-progress related to finance leases, and once the project is completed and enters service, it is reclassified to COGS. During the three and six months ended June 30, 2022, the Company spent $11.7 million and $40.9 million (June 30, 2021 – $14.3 million and $14.3 million) related to finance leases.

LIQUIDITY

The Company expects that continued cash flows from operations in 2022, together with cash and cash equivalents on hand and currently available credit facilities, will be more than sufficient to fund its requirements for investments in working capital and capital assets. As at June 30, 2022, the Company held cash and cash equivalents of $147.1 million and had cash drawings of $78.4 million against the Bank and Asset-Based Facilities leaving it with access to $678.7 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank Facility, Asset-Based Facility, and the Company's unsecured notes ("Notes"), with a bank-adjusted net debt to EBITDA ratio, excluding the non-recourse debt, of 1.36:1 compared to a maximum ratio of 3:1, and an interest coverage ratio of 9:1 compared to a minimum ratio of 3:1. The interest coverage ratio is calculated by dividing the trailing 12-month bank-adjusted EBITDA, as defined by the Company's lenders, by interest expense over the same timeframe.

SUMMARIZED STATEMENTS OF CASH FLOW

($ Canadian thousands)	Three months ended June 30, 2022	Three months ended June 30, Restated[1] 2021	Six months ended June 30, 2022	Six months ended June 30, Restated[1] 2021
Cash and cash equivalents, beginning of period	**$ 133,214**	$ 110,642	**$ 172,758**	$ 95,676
Cash provided by (used in):				
Operating activities	**21,097**	14,390	**(1,615)**	72,967
Investing activities	**157**	191	**(16,728)**	(12,379)
Financing activities	**(9,963)**	(24,229)	**(8,578)**	(54,272)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**2,573**	(2,022)	**1,241**	(3,020)
Cash and cash equivalents, end of period	**$ 147,078**	$ 98,972	**$ 147,078**	$ 98,972

[1] *Refer to note 21 of the Financial Statements for the details of this restatement.*

Operating Activities

For the three months ended June 30, 2022, cash provided by operating activities is higher than the comparative period, primarily driven by higher net earnings and improvement in the net change in working capital and other. For the six months ended June 30, 2022, cash used in operating activities was unfavorable compared to the cash provided by operations in the same period last year. This variance is primarily the result of the net change in working capital and other spurred by the increase in business activity, partially offset by an increase in net earnings in the first half of 2022 as opposed to the first half of 2021. Movements in the net change in working capital are explained in the "Financial Position" section of this MD&A.

Investing Activities

Cash provided by investing activities for the three months ended June 30, 2022 remained relatively flat when compared to the three months ended June 30, 2021. The slight decrease is due to lower capital expenditures, net of the change in accounts payable related to the addition of PP&E and rental equipment, offset by higher proceeds received on the disposal of rental equipment. For the six months ended June 30, 2022, cash used in investing activities increased primarily due to the net change in working capital associated with investing activities, partially offset by lower capital expenditures on rental equipment and higher proceeds on the disposal of rental equipment.

Financing Activities

For the three and six months ended June 30, 2022, cash used in financing activities decreased primarily due to larger repayments of long-term debt as well as deferred refinancing and transaction costs incurred in the current year relating to the Exterran transaction.

QUARTERLY SUMMARY

($ Canadian thousands, except per share amounts)	Revenue	Net earnings (loss)	Earnings (loss) per share – basic	Earnings (loss) per share – diluted
June 30, 2022	**$ 372,077**	**$ 13,352**	**$ 0.15**	**$ 0.15**
March 31, 2022	323,069	(369)	(0.00)	(0.00)
December 31, 2021	321,347	(32,707)	(0.36)	(0.36)
September 30, 2021	231,097	6,958	0.08	0.08
June 30, 2021	204,507	4,291	0.05	0.05
March 31, 2021	203,205	3,003	0.03	0.03
December 31, 2020	298,837	32,668	0.36	0.36
September 30, 2020	265,037	10,736	0.12	0.12
June 30, 2020	287,438	7,415	0.08	0.08
March 31, 2020	365,740	37,438	0.42	0.42
December 31, 2019	474,362	31,436	0.35	0.35
September 30, 2019	544,284	63,074	0.71	0.70

CAPITAL RESOURCES

On July 31, 2022, Enerflex had 89,680,965 shares outstanding. Enerflex has not established a formal dividend policy and the Board of Directors anticipates setting the quarterly dividends based on the availability of cash flow and anticipated market conditions, taking into consideration business opportunities and the need for growth capital. Subsequent to the second quarter of 2022, the Company declared a quarterly dividend of $0.025 per share. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

At June 30, 2022, the Company had drawn $78.4 million against the Bank and Asset-Based Facilities (December 31, 2021 – $67.9 million). The weighted average interest rate on the Bank and Asset-Based Facilities at June 30, 2022 was 2.6 percent and 3.1 percent (December 31, 2021 – 2.1 percent and 3.0 percent).

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

($ Canadian thousands)	**June 30, 2022**	December 31, 2021
Drawings on the Bank Facility	**$ 51,359**	$ 30,522
Drawings on the Asset-Based Facility	**27,029**	37,411
Notes due December 15, 2024	**150,303**	148,119
Notes due December 15, 2027	**120,202**	118,746
Deferred transaction costs	**(2,942)**	(3,376)
	$ 345,951	$ 331,422
Current portion of long-term debt	**$ 4,735**	$ -
Non-current portion of long-term debt	**341,216**	331,422
	$ 345,951	$ 331,422

At June 30, 2022, without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $228.7 million, and $120.2 million thereafter.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying 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 Financial Statements. The Audit Committee is also responsible for determining that management fulfills its responsibilities in the financial control of operations, including disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR").

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Chief Executive Officer and the Chief Financial Officer, together with other members of Management, evaluate the effectiveness of the Company's DC&P and ICFR using the internal control integrated framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on this review, the Company has concluded that its DC&P and ICFR was not effective for the three and six months ended June 30, 2021, due to a material weakness as described below. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management identified a material weakness in design and operation of the control over review of financial statement presentation and disclosure, which led to the amendment and restatement of its unaudited Interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2021. This deficiency was due to reliance on system automation to correctly classify and present amounts in the financial statements and insufficient precision of financial statement review controls to have identified a material misstatement in the financial statements. Due to this material weakness, certain financial statement presentation was incorrect, which included the misclassification of certain cash flows, and non-cash items being reflected as transfers between Operating, Investing, and Financing cash flows. The Statements of Cash Flows and related disclosures have been adjusted for this misclassification and these non-cash transfers.

The Company has taken and will continue to take a number of actions to remediate this material weakness. During the second quarter of 2022, the Company developed and implemented a remediation plan to address this material weakness that identifies areas where enhanced precision will help detect and prevent material misstatements. This remediation plan includes, but is not limited to:

- a new reconciliation process that will identify any new transactions being reflected in the Statement of Cash Flows;
- a robust review methodology for complex and non-normal course transactions which includes all aspects of presentation and disclosure;
- a proof to ensure that non-cash transfers are no longer reflected within the Statement of Cash Flows; and
- plans to use outside resources to enhance the business process documentation.

Certain remedial measures were undertaken in the second quarter of 2022 that resulted in an effective control design over the Company's reliance on system automation to correctly classify and prepare the Statements of Cash Flows, however Management was unable to conclude that these controls were operationally effective in the assessment for the three and six months ended June 30, 2022. Although the Company can give no assurance that these actions will remediate this material weakness in internal controls or that additional material weaknesses in our ICFR will not be identified in the future, Management believes the foregoing efforts will effectively remediate the identified material weakness. Management will take additional remedial actions as necessary as they continue to evaluate and work to improve the Company's ICFR environment.

Outside of the material weakness noted above, there have been no significant changes in the design of the Company's ICFR during the three and six months ended June 30, 2022, that would materially affect, or is reasonably likely to materially affect, the Company's ICFR.

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

SUBSEQUENT EVENTS

Subsequent to June 30, 2022, Enerflex declared a quarterly dividend of $0.025 per share, payable on October 6, 2022, to shareholders of record on August 18, 2022. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking information within the meaning of applicable Canadian securities laws and within the meaning of the safe harbor provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to the respective Management expectations about future events, results of operations, and the future performance (both financial and operational) and business prospects of Enerflex, Exterran, or the combined entity. All statements other than statements of historical fact are forward-looking statements. The use of any of the words "anticipate", "future", "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: the closing of the Transaction and the timing associated therewith, if at all; the amount and nature of any losses incurred as a result of the Labor Board Decision; the anticipated financial performance of the combined entity, including its expected gross margin; the expected run-rate synergies and efficiencies to be achieved as a result of the Transaction and the quantum and timing associated therewith; anticipated shareholder value; expected accretion to adjusted EBITDA, cash flow per share, and earnings per share for shareholders of Enerflex; excess cash flow beginning in 2023; future capital expenditures, including the amount and nature thereof; Engineered Systems bookings and backlog; crude oil and natural gas prices and the impact of such prices on demand for the combined entity's products and services; development trends in the oil and gas industry; seasonal variations in the activity levels of certain crude oil and natural gas markets; expectation in respect of excess cash flow following closing of the Transaction; business prospects and strategy; expansion and growth of the business and operations, including position in the Energy Services markets; expectations regarding future dividends; and implications of changes in government regulation, laws and income taxes; environmental, social, and governance matters; the receipt of all necessary approvals including the approval of the Enerflex shareholders and Exterran shareholders and the timing associated therewith and the approval of the SEC and the timing associated therewith; the expectations with respect to the mailing of the Circular, the timing associated therewith and the disclosures to be made therein; the disclosures provided in the section titled "Outlook", "Outlook by Segment", and the table entitled "Transaction-related Guidance as at June 30, 2022"; Exterran's expectation regarding the Dispute that although it may incur some loss with respect to such matter, the ultimate resolution of this matter will not be material to Exterran; the successful completion of the Transaction and the anticipated closing date; the effectiveness of the actions taken to remediate the identified material weakness; and the anticipated outcomes and when we expect to close our previously announced combination with Exterran Corporation, including the combined entity's accelerated generation of recurring gross margins to approximately 70 percent of total when excluding the impact of depreciation and amortization, approximate doubling of EBITDA, and capital allocation priorities following the completion of in-flight projects in 2022 and 2023.

This forward-looking information is based on assumptions, estimates and analysis made by Enerflex and its perception of trends, current conditions and expected developments, as well as other factors that are believed by Enerflex to be reasonable and relevant in the circumstances and in light of the Transaction. 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 Enerflex's operations, including, without limitation: the satisfaction of closing conditions to the Transaction in a timely manner, if at all; receipt of all necessary regulatory and/or competition approvals on terms acceptable to Enerflex and Exterran; the impact of economic conditions including volatility in the price of crude oil, natural gas, and natural gas liquids; supply chain interruptions leading to delays in receiving materials and parts to produce equipment; interest rates and foreign exchange rates; industry conditions including supply and demand fundamentals for oil and gas, and the related infrastructure including new environmental, taxation and other laws and regulations; business disruptions resulting from the ongoing 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 control of Enerflex. Readers are cautioned that the foregoing list of assumptions and risk factors should not be construed as exhaustive. While Enerflex 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 and such differences could be material from those expressed in, or implied by, these statements. The forward-looking information included in this MD&A should not be unduly relied upon as a number of factors could cause actual results to differ materially from the results discussed in these forward-looking statements, including but not limited to: the completion and related timing for completion of the Transaction; the ability of Enerflex and Exterran to timely receive any necessary regulatory, shareholder, stock exchange, lender, or other third-party approvals to satisfy the closing conditions of the Transaction; interloper risk; the ability to complete the Transaction on the terms contemplated by Enerflex and Exterran, or at all; the ability of the combined entity to realize the anticipated benefits of, and synergies from, the Transaction and the timing and quantum thereof; consequences of not completing the Transaction, including the volatility of the share prices of Enerflex and Exterran, negative reactions from the investment community, and the required payment of certain costs related to the Transaction; actions taken by government entities or others seeking to prevent or alter the terms of the Transaction; potential undisclosed liabilities unidentified during the due diligence process; the accuracy of the pro forma financial information of the combined entity; the interpretation of the Transaction by tax authorities; the success of business integration and the time required to successfully integrate; the focus of Management's time and attention on the Transaction and other disruptions arising from the Transaction; the ability to maintain desirable financial ratios; the ability to access various sources of debt and equity capital, generally, and on acceptable terms, if at all; the ability to utilize tax losses in the future; the ability to maintain relationships with partners and to successfully manage and operate integrated businesses; risks associated with technology and equipment, including potential cyberattacks; the occurrence of unexpected events such as pandemics, war, terrorist threats, and the instability resulting therefrom; risks associated with existing and potential future lawsuits, shareholder proposals, and regulatory actions; and those factors referred to under the heading "Risk Factors" in Enerflex's Annual Information Form ("AIF") and Exterran's Form 10-K, each for the year ended December 31, 2021, and in Enerflex's MD&A and Exterran's Form 10-Q, each for the three and six months ended June 30, 2022, available on SEDAR and EDGAR, respectively.

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

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

INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

($ Canadian thousands)		**June 30, 2022**		December 31, 2021
Assets				
Current assets				
Cash and cash equivalents	**$**	**147,078**	$	172,758
Accounts receivable (Note 2)		**258,579**		212,206
Contract assets (Note 2)		**96,319**		82,760
Inventories (Note 3)		**193,785**		172,687
Work-in-progress related to finance leases (Note 3)		**44,234**		36,169
Current portion of finance leases receivable (Note 6)		**20,965**		15,248
Income taxes receivable		**2,448**		3,732
Derivative financial instruments (Note 15)		**306**		294
Prepayments		**16,971**		13,853
Total current assets		**780,685**		709,707
Property, plant and equipment (Note 4)		**95,088**		96,414
Rental equipment (Note 4)		**606,089**		610,328
Lease right-of-use assets (Note 5)		**45,866**		49,887
Finance leases receivable (Note 6)		**118,207**		88,110
Deferred tax assets (Note 11)		**9,195**		9,293
Other assets		**62,510**		51,315
Intangible assets		**7,202**		10,118
Goodwill (Note 7)		**568,044**		566,270
Total assets	**$**	**2,292,886**	$	2,191,442
Liabilities and Shareholders' Equity				
Current liabilities				
Accounts payable and accrued liabilities	**$**	**278,166**	$	240,747
Warranty provision		**6,395**		6,636
Income taxes payable		**9,250**		9,318
Deferred revenues (Note 8)		**116,936**		84,614
Current portion of long-term debt (Note 9)		**4,735**		-
Current portion of lease liabilities (Note 10)		**13,127**		13,906
Derivative financial instruments (Note 15)		**186**		180
Total current liabilities		**428,795**		355,401
Long-term debt (Note 9)		**341,216**		331,422
Lease liabilities (Note 10)		**39,834**		43,108
Deferred tax liabilities (Note 11)		**91,731**		91,972
Other liabilities		**12,413**		15,785
Total liabilities	**$**	**913,989**	$	837,688
Shareholders' equity				
Share capital	**$**	**375,540**	$	375,524
Contributed surplus		**659,537**		658,615
Retained earnings		**283,461**		274,962
Accumulated other comprehensive income		**60,359**		44,653
Total shareholders' equity		**1,378,897**		1,353,754
Total liabilities and shareholders' equity	**$**	**2,292,886**	$	2,191,442

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (unaudited)

($ Canadian thousands, except per share amounts)	Three months ended June 30, **2022**	Three months ended June 30, 2021[1]	Six months ended June 30, **2022**	Six months ended June 30, 2021[1]
Revenue (Note 12)	**$ 372,077**	$ 204,507	**$ 695,146**	$ 407,712
Cost of goods sold	**308,488**	153,405	**577,914**	311,134
Gross margin	**63,589**	51,102	**117,232**	96,578
Selling and administrative expenses	**43,346**	33,357	**90,150**	71,812
Operating income	**20,243**	17,745	**27,082**	24,766
Gain on disposal of property, plant and equipment (Note 4)	**79**	63	**79**	38
Equity earnings (loss) from associates and joint ventures	**562**	187	**846**	(225)
Earnings before finance costs and income taxes	**20,884**	17,995	**28,007**	24,579
Net finance costs (Note 14)	**4,460**	4,954	**8,331**	9,946
Earnings before income taxes	**16,424**	13,041	**19,676**	14,633
Income taxes (Note 11)	**3,072**	8,750	**6,693**	7,339
Net earnings	**$ 13,352**	$ 4,291	**$ 12,983**	$ 7,294
Earnings per share – basic	**$ 0.15**	$ 0.05	**$ 0.14**	$ 0.08
Earnings per share – diluted	**$ 0.15**	$ 0.05	**$ 0.14**	$ 0.08
Weighted average number of shares – basic	**89,680,965**	89,678,845	**89,680,391**	89,678,845
Weighted average number of shares – diluted	**89,850,457**	89,802,486	**89,841,417**	89,782,907

See accompanying Notes to the interim condensed consolidated financial statements.

[1] Certain amounts for the three and six months ended June 30, 2021 have been reclassified. Refer to Note 1(b) for additional details.

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

($ Canadian thousands)	Three months ended June 30, **2022**	Three months ended June 30, 2021	Six months ended June 30, **2022**	Six months ended June 30, 2021
Net earnings	**$ 13,352**	$ 4,291	**$ 12,983**	$ 7,294
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	**205**	78	**60**	150
Gain (loss) on derivatives designated as cash flow hedges transferred to net earnings in the current year, net of income tax expense	**6**	32	**(39)**	(174)
Unrealized gain (loss) on translation of foreign denominated debt	**(1,677)**	778	**(894)**	1,453
Unrealized gain (loss) on translation of financial statements of foreign operations	**26,681**	(18,938)	**16,579**	(40,427)
Other comprehensive income (loss)	**$ 25,215**	$ (18,050)	**$ 15,706**	$ (38,998)
Total comprehensive income (loss)	**$ 38,567**	$ (13,759)	**$ 28,689**	$ (31,704)

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

($ Canadian thousands)	Three months ended June 30, 2022	Three months ended June 30, Restated (Note 21) 2021	Six months ended June 30, 2022	Six months ended June 30, Restated (Note 21) 2021
Operating Activities				
Net earnings	**$ 13,352**	$ 4,291	**$ 12,983**	$ 7,294
Items not requiring cash and cash equivalents:				
Depreciation and amortization	**22,058**	21,389	**43,948**	42,461
Equity (earnings) loss from associates and joint ventures	**(562)**	(187)	**(846)**	225
Deferred income taxes (Note 11)	**(1,920)**	1,361	**(1,662)**	(3,159)
Share-based compensation expense (recovery) (Note 13)	**(2,667)**	3,158	**1,382**	8,425
Gain on sale of property, plant and equipment (Note 4)	**(79)**	(63)	**(79)**	(38)
Impairment on rental equipment (Note 4)	**349**	485	**349**	485
	30,531	30,434	**56,075**	55,693
Net change in working capital and other (Note 16)	**(9,434)**	(16,044)	**(57,690)**	17,274
Cash provided by (used in) operating activities	**$ 21,097**	$ 14,390	**$ (1,615)**	$ 72,967
Investing Activities				
Additions to:				
Property, plant and equipment (Note 4)	**$ (2,092)**	$ (1,426)	**$ (2,991)**	$ (2,745)
Rental equipment (Note 4)	**(12,155)**	(14,641)	**(14,695)**	(25,970)
Proceeds on disposal of:				
Property, plant and equipment (Note 4)	**87**	77	**87**	77
Rental equipment (Note 4)	**2,693**	149	**2,693**	1,018
Investment in associates and joint ventures	**(467)**	-	**(467)**	-
Net change in accounts payable related to the addition of property, plant and equipment, and rental equipment	**12,091**	16,032	**(1,355)**	15,241
Cash provided by (used in) investing activities	**$ 157**	$ 191	**$ (16,728)**	$ (12,379)
Financing Activities				
Net proceeds from (repayment of) the Bank Facility (Note 9)	**$ 4,818**	$ (22,106)	**$ 20,678**	$ (46,865)
Net proceeds from (repayment of) the Asset-Based Facility (Note 9)	**(6,284)**	43,714	**(10,861)**	43,714
Repayment of the Notes (Note 9)	**-**	(40,000)	**-**	(40,000)
Lease liability principal repayment (Note 10)	**(3,818)**	(3,151)	**(7,331)**	(6,487)
Dividends paid	**(2,242)**	(1,794)	**(4,484)**	(3,587)
Stock option exercises (Note 13)	**-**	-	**12**	-
Debt refinancing and transaction costs	**(2,437)**	(892)	**(6,592)**	(1,047)
Cash used in financing activities	**$ (9,963)**	$ (24,229)	**$ (8,578)**	$ (54,272)
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**$ 2,573**	$ (2,022)	**$ 1,241**	$ (3,020)
Increase (decrease) in cash and cash equivalents	**13,864**	(11,670)	**(25,680)**	3,296
Cash and cash equivalents, beginning of period	**133,214**	110,642	**172,758**	95,676
Cash and cash equivalents, end of period	**$ 147,078**	$ 98,972	**$ 147,078**	$ 98,972

See accompanying Notes to the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

($ Canadian thousands)	Share capital	Contributed surplus	Retained earnings	Foreign currency translation adjustments	Hedging reserve	Accumulated other comprehensive income	Total
At January 1, 2021	$ 375,524	$ 656,832	$ 301,040	$ 63,270	$ 29	$ 63,299	$ 1,396,695
Net earnings	-	-	7,294	-	-	-	7,294
Other comprehensive loss	-	-	-	(38,974)	(24)	(38,998)	(38,998)
Effect of stock option plans	-	893	-	-	-	-	893
Dividends	-	-	(3,587)	-	-	-	(3,587)
At June 30, 2021	$ 375,524	$ 657,725	$ 304,747	$ 24,296	$ 5	$ 24,301	$ 1,362,297
At January 1, 2022	$ 375,524	$ 658,615	$ 274,962	$ 44,544	$ 109	$ 44,653	$ 1,353,754
Net earnings	-	-	12,983	-	-	-	12,983
Other comprehensive income	-	-	-	15,685	21	15,706	15,706
Effect of stock option plans	16	922	-	-	-	-	938
Dividends	-	-	(4,484)	-	-	-	(4,484)
At June 30, 2022	**$ 375,540**	**$ 659,537**	**$ 283,461**	**$ 60,229**	**$ 130**	**$ 60,359**	**$ 1,378,897**

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 ("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 10, 2022.

(b) Basis of Presentation and Measurement

These unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022 and 2021 were prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting using accounting policies consistent with IFRS as issued by the IASB and the IFRS Interpretations Committee ("IFRIC"). They do not include all the disclosures included in the annual consolidated financial statements for the year ended December 31, 2021. Accordingly, they should be read in conjunction with the amended and restated annual consolidated financial statements. Certain comparative figures have been reclassified to conform to the current period's presentation.

Management has performed a review of the classification of the function of expenditures incurred. Following its review, the Company corrected the classification of certain costs related to facilities, insurance, and compensation, resulting in a net reclassification of costs from selling and administrative expenses ("SG&A") to cost of goods sold ("COGS"). This correction provides more relevant information and reflects costs that are directly attributable to the production of goods or the supply of services. The impact of the net reclassification on COGS and gross margin for the three and six month comparative periods ending June 30, 2021 is $4.6 million and $8.6 million, respectively. There is no impact to net earnings or earnings per share. These reclassifications are summarized in the tables below:

Excerpt from unaudited interim condensed consolidated statements of earnings for the three months ended June 30, 2021	As previously reported	Reclassification	Revised
Revenue	$ 204,507	$ -	$ 204,507
COGS	148,828	4,577	153,405
Gross margin	55,679	(4,577)	51,102
SG&A	37,934	(4,577)	33,357
Net earnings	4,291	-	4,291

Excerpt from unaudited interim condensed consolidated statements of earnings for the six months ended June 30, 2021	As previously reported	Reclassification	Revised
Revenue	$ 407,712	$ -	$ 407,712
COGS	302,485	8,649	311,134
Gross margin	105,227	(8,649)	96,578
SG&A	80,461	(8,649)	71,812
Net earnings	7,294	-	7,294

The unaudited interim condensed consolidated financial statements are presented in Canadian dollars rounded to the nearest thousand, except per share amounts or as otherwise noted, and are prepared on a going concern basis under the historical cost basis, with certain financial assets and financial liabilities recorded at fair value. There have been no significant changes in accounting policies compared to those described in the annual consolidated financial statements for the year ended December 31, 2021.

NOTE 2. ACCOUNTS RECEIVABLE AND CONTRACT ASSETS

Accounts receivable consisted of the following:

		June 30, 2022		December 31, 2021
Trade receivables	$	**258,953**	$	213,815
Less: allowance for doubtful accounts		**(10,473)**		(10,334)
Trade receivables, net	$	**248,480**	$	203,481
Other receivables		**10,099**		8,725
Total accounts receivable	$	**258,579**	$	212,206

Aging of trade receivables:

		June 30, 2022		December 31, 2021
Current to 90 days	$	**221,285**	$	183,105
Over 90 days		**37,668**		30,710
	$	**258,953**	$	213,815

Movement in allowance for doubtful accounts:

		June 30, 2022		December 31, 2021
Balance, January 1	$	**10,334**	$	11,439
Impairment provision additions on receivables		**87**		275
Amounts settled and derecognized during the period		**(115)**		(1,317)
Currency translation effects		**167**		(63)
Closing balance	$	**10,473**	$	10,334

Movement in contract assets:

		June 30, 2022		December 31, 2021
Balance, January 1	$	**82,760**	$	66,722
Unbilled revenue recognized		**175,293**		244,372
Amounts billed		**(163,319)**		(228,327)
Currency translation effects		**1,585**		(7)
Closing balance	$	**96,319**	$	82,760

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

NOTE 3. INVENTORIES

Inventories consisted of the following:

		June 30, 2022		December 31, 2021
Direct materials	**$**	**71,620**	$	83,943
Repair and distribution parts		**66,209**		54,156
Work-in-progress		**52,770**		31,298
Equipment		**3,186**		3,290
Total inventories	**$**	**193,785**	$	172,687

		June 30, 2022		December 31, 2021
Work-in-progress related to finance leases	**$**	**44,234**	$	36,169

The amount of inventory and overhead costs recognized as an expense and included in COGS for the three and six months ended June 30, 2022 was $308.5 million and $577.9 million (June 30, 2021 – $153.4 million and $311.1 million). COGS is made up of direct materials, direct labour, depreciation on manufacturing assets, post-manufacturing expenses, and overhead. COGS also includes inventory write-downs pertaining to obsolescence and aging, together with recoveries of past write-downs upon disposition. The net change in inventory reserves charged to the interim condensed consolidated statements of earnings and included in COGS for the three and six months ended June 30, 2022 was $(0.1) million and $1.0 million (June 30, 2021 – $1.0 million and $2.6 million).

The costs related to the construction of rental assets determined to be finance leases are accounted for as work-in-progress related to finance leases. Once the project is completed and enters service it will be reclassified to COGS. During the three and six months ended June 30, 2022 the Company spent $11.7 million and $40.9 million (June 30, 2021 – $14.3 million and $14.3 million) related to finance leases.

NOTE 4. PROPERTY, PLANT AND EQUIPMENT AND RENTAL EQUIPMENT

During the three and six months ended June 30, 2022, the Company added $2.1 million and $3.0 million in property, plant and equipment ("PP&E") (June 30, 2021 – $1.4 million and $2.7 million) and $12.2 million and $14.7 million in rental equipment (June 30, 2021 – $14.6 million and $26.0 million). The impact of foreign exchange movements on assets denominated in a foreign currency during the three and six months ended June 30, 2022 was an increase of $2.5 million and $1.4 million on PP&E and an increase of $16.0 million and $10.9 million on rental equipment (June 30, 2021 – decrease of $1.3 million and $2.5 million; decrease of $5.9 million and $15.7 million, respectively).

Depreciation of PP&E and rental equipment included in earnings for the three months ended June 30, 2022 was $16.6 million (June 30, 2021 – $16.1 million), of which $16.1 million was included in COGS (June 30, 2021 – $16.0 million) and $0.5 million was included in SG&A (June 30, 2021 – $0.1 million).

Depreciation of PP&E and rental equipment included in earnings for the six months ended June 30, 2022 was $32.9 million (June 30, 2021 – $31.8 million), of which $32.0 million was included in COGS (June 30, 2021 – $31.2 million) and $0.9 million was included in SG&A (June 30, 2021 – $0.6 million).

During the first quarter of 2022, the Company reclassified certain prior period amounts between COGS and SG&A. Refer to Note 1(b) for more details. As a result, during the three and six months ended June 30, 2021, $0.8 million and $1.2 million of PP&E depreciation was reclassified from SG&A to COGS.

Impairment of rental equipment included in earnings for the three and six months ended June 30, 2022 was $0.3 million (June 30, 2021 - $0.5 million).

NOTE 5. LEASE RIGHT-OF-USE ASSETS

During the three and six months ended June 30, 2022, the Company added $2.1 million and $3.7 million in lease right-of-use ("ROU") assets (June 30, 2021 – $3.0 million and $3.7 million) and disposed of lease ROU assets with a net book value of $0.8 million (June 30, 2021 – nil). The impact of foreign exchange movements on lease ROU assets denominated in a foreign currency during the three and six month months ended June 30, 2022 was an increase of $0.4 million and $0.2 million (June 30, 2021 – decrease of $0.3 million and $0.6 million).

Depreciation of lease ROU assets included in earnings for the three months ended June 30, 2022 was $3.5 million (June 30, 2021 – $3.3 million), of which $2.9 million was included in COGS (June 30, 2021 – $2.5 million) and $0.6 million was included in SG&A (June 30, 2021 – $0.8 million).

Depreciation of lease ROU assets included in earnings for the six months ended June 30, 2022 was $7.1 million (June 30, 2021 – $6.7 million), of which $5.9 million was included in COGS (June 30, 2021 – $5.1 million) and $1.2 million was included in SG&A (June 30, 2021 – $1.6 million).

During the first quarter of 2022, the Company reclassified certain prior period amounts between COGS and SG&A. Refer to Note 1(b) for more details. As a result, during the three and six months ended June 30, 2022, $0.8 million and $1.6 million of lease ROU asset depreciation was reclassified from SG&A to COGS.

NOTE 6. FINANCE LEASES RECEIVABLE

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

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

	Minimum lease payments and unguaranteed residual value		Present value of minimum lease payments and unguaranteed residual value	
	June 30, 2022	December 31, 2021	**June 30, 2022**	December 31, 2021
Less than one year	**$ 22,628**	$ 16,420	**$ 20,965**	$ 15,248
Between one and five years	**91,057**	64,739	**68,228**	49,546
Later than five years	**84,454**	62,827	**49,979**	38,564
	$ 198,139	$ 143,986	**$ 139,172**	$ 103,358
Less: Unearned finance income	**(58,967)**	(40,628)	**-**	-
	$ 139,172	$ 103,358	**$ 139,172**	$ 103,358

	June 30, 2022	December 31, 2021
Balance, January 1	**$ 103,358**	$ 64,274
Additions	**38,947**	40,154
Interest income	**5,872**	5,417
Billings and payments	**(11,487)**	(6,597)
Currency translation effects	**2,482**	110
	$ 139,172	$ 103,358

During the three and six months ended June 30, 2022, the Company recognized nil and $6.6 million of selling profit related to the commencement of finance leases (June 30, 2021 – nil). Additionally, the Company recognized $3.0 million and $5.9 million of interest income on the finance lease receivable (June 30, 2021 – $1.1 million and $2.3 million). Income related to variable lease payments was nominal during the three and six months ended June 30, 2022 and 2021.

For the years ended December 31, 2021, 2020, and 2019, the Company recognized selling profit related to the commencement of finance leases of $6.2 million, $14.7 million, and nil. Additionally, the Company recognized $5.4 million, $0.1 million, and $0.1 million of interest income on the finance lease receivable, during the twelve months ended December 31, 2021, 2020, and 2019. Income related to variable lease payments was nominal during the years ended December 31, 2021, 2020, and 2019.

The average interest rates implicit in the leases are fixed at the contract date for the entire lease term. At June 30, 2022, the average interest rate was 7.8 percent per annum (December 31, 2021 – 8.0 percent). The finance lease receivables at the end of reporting period are neither past due nor impaired.

NOTE 7. GOODWILL AND IMPAIRMENT REVIEW OF GOODWILL

		June 30, 2022		December 31, 2021
Balance, January 1	$	**566,270**	$	576,028
Currency translation effects		**1,774**		(9,758)
	$	**568,044**	$	566,270

Goodwill acquired through business combinations was allocated to the USA, Rest of World ("ROW"), and Canada business segments, and represents the lowest level at which goodwill is monitored for internal management purposes. Management performed an assessment comparing the carrying amount and recoverable amount for each segment at December 31, 2021, the result of which was no impairment of goodwill. At June 30, 2022, the Company determined that there were no indicators of impairment and that the previous assessment continued to best represent the recoverability of the Company's goodwill.

NOTE 8. DEFERRED REVENUES

		June 30, 2022		December 31, 2021
Balance, January 1	$	**84,614**	$	35,409
Cash received in advance of revenue recognition		**178,295**		167,956
Revenue subsequently recognized		**(147,661)**		(118,438)
Currency translation effects		**1,688**		(313)
Closing balance	$	**116,936**	$	84,614

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

NOTE 9. LONG-TERM DEBT

The syndicated revolving credit facility ("Bank Facility") has a maturity date of June 30, 2025 (the "Maturity Date") for $660.0 million of $725.0 million in commitments. The maturity date for the remaining $65.0 million is June 30, 2023. In addition, the Bank Facility may be increased by $150.0 million at the request of the Company, subject to the lenders' consent. The Maturity Date of the Bank Facility may be extended annually on or before the anniversary date with the consent of the lenders.

A subsidiary of the Company has access to a credit facility, secured by certain assets of the subsidiary, of up to $52.5 million U.S. dollars ("Asset-Based Facility"). This credit facility is non-recourse to the Company. Under the terms of the Asset-Based Facility, the Company is required to maintain certain covenants. As at June 30, 2022, the Company was in compliance with its covenants. Pursuant to the terms and conditions of the Asset-Based Facility, a margin is applied to drawings on the Asset-Based Facility in addition to the quoted interest rate. The margin is established as a percentage and is based on a consolidated total funded debt to earnings before finance costs, income taxes, depreciation and amortization ("EBITDA") ratio.

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

		June 30, 2022		December 31, 2021
Drawings on the Bank Facility	**$**	**51,359**	$	30,522
Drawings on the Asset-Based Facility		**27,029**		37,411
Notes due December 15, 2024		**150,303**		148,119
Notes due December 15, 2027		**120,202**		118,746
Deferred transaction costs		**(2,942)**		(3,376)
	$	**345,951**	$	331,422
Current portion of long-term debt	**$**	**4,735**	$	-
Non-current portion of long-term debt		**341,216**		331,422
	$	**345,951**	$	331,422

The weighted average interest rate on the Bank Facility for the six months ended June 30, 2022 was 2.6 percent (December 31, 2021 – 2.1 percent), and the weighted average interest rate on the Asset-Based Facility for the six months ended June 30, 2022 was 3.1 percent (December 31, 2021 – 3.0 percent). At June 30, 2022 without considering renewal at similar terms, the Canadian dollar equivalent principal payments due over the next five years are $228.7 million, and $120.2 million thereafter.

NOTE 10. LEASE LIABILITIES

	June 30, 2022	December 31, 2021
Balance, January 1	**$ 57,014**	$ 61,926
Additions	**2,940**	9,721
Lease interest	**1,361**	3,029
Payments made against lease liabilities	**(8,692)**	(17,244)
Currency translation effects and other	**338**	(418)
Closing balance	**$ 52,961**	$ 57,014
Current portion of lease liabilities	**$ 13,127**	$ 13,906
Non-current portion of lease liabilities	**39,834**	43,108
	$ 52,961	$ 57,014

In addition to the lease payments made above, during the three and six months ended June 30, 2022, the Company paid $0.2 million and $0.3 million (June 30, 2021 – less than $0.1 million and $0.1 million) relating to short-term and low-value leases which were expensed as incurred. During the three and six months ended June 30, 2022, the Company also paid $0.4 million and $0.8 million (June 30, 2021 – $0.5 million and $1.0 million) in variable lease payments not included in the measurement of lease liabilities, of which $0.3 million and $0.6 million (June 30, 2021 – $0.3 million and $0.5 million) was included in COGS and $0.1 million and $0.2 million (June 30, 2021 – $0.2 million and $0.5 million) was included in SG&A. Interest expense on lease liabilities was $0.7 million and $1.4 million for the three and six months ended June 30, 2022 (June 30, 2021 – $0.8 million and $1.6 million). Total cash outflow for leases for the three and six months ended June 30, 2022 was $5.1 million and $9.7 million (June 30, 2021 – $4.5 million and $9.1 million).

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

	June 30, 2022
2022	**$ 7,733**
2023	**12,006**
2024	**8,852**
2025	**6,738**
2026	**4,870**
Thereafter	**22,911**
	$ 63,110
Less:	
Imputed interest	**10,030**
Short-term leases	**113**
Low-value leases	**6**
	$ 52,961

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,		Six months ended June 30,	
	2022	2021	**2022**	2021
Current income taxes	**$ 4,992**	$ 7,389	**$ 8,355**	$ 10,498
Deferred income taxes	**(1,920)**	1,361	**(1,662)**	(3,159)
	$ 3,072	$ 8,750	**$ 6,693**	$ 7,339

(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,		Six months ended June 30,	
	2022	2021	**2022**	2021
Earnings before income taxes	**$ 16,424**	$ 13,041	**$ 19,676**	$ 14,633
Canadian statutory rate	**23.4%**	23.8%	**23.4%**	23.8%
Expected income tax provision	**$ 3,843**	$ 3,104	**$ 4,604**	$ 3,483
Add (deduct):				
Exchange rate effects on tax basis	**(1,064)**	1,200	**(2,736)**	(285)
Earnings taxed in foreign jurisdictions	**(1,674)**	1,977	**(1,269)**	1,373
Withholding tax on dividends received from foreign subsidiaries	**-**	2,763	**-**	2,763
Amounts not deductible (taxable) for tax purposes	**79**	211	**243**	358
Impact of accounting for associates and joint ventures	**(130)**	(44)	**(198)**	53
Change in recognized deferred tax asset[1]	**1,866**	-	**5,790**	-
Other	**152**	(461)	**259**	(406)
Income tax expense from continuing operations	**$ 3,072**	$ 8,750	**$ 6,693**	$ 7,339

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

The applicable statutory tax rate is the aggregate of the Canadian federal income tax rate of 15.0 percent (2021 – 15.0 percent) and provincial income tax rate of 8.4 percent (2021 – 8.8 percent).

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

NOTE 12. REVENUE

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Engineered Systems	**$ 196,346**	$ 64,998	**$ 370,777**	$ 137,230
Service	**105,839**	77,630	**189,025**	148,166
Energy Infrastructure[1]	**69,892**	61,879	**135,344**	122,316
Total revenue	**$ 372,077**	$ 204,507	**$ 695,146**	$ 407,712

[1] During the three and six months ended June 30, 2022, the Company recognized $14.6 million and $28.2 million of revenue related to operating leases in its Canada and ROW segments (June 30, 2021 - $16.7 million and $34.5 million). Additionally, the Company recognized $29.7 million and $57.3 million of revenue related to its USA contract compression fleet (June 30, 2021 - $23.4 million and $46.4 million).

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
United States	**$ 194,233**	$ 105,883	**$ 321,947**	$ 187,270
Canada	**65,288**	30,969	**130,332**	80,217
Oman	**14,284**	16,561	**64,902**	33,945
Mexico	**28,869**	5,935	**35,831**	12,229
Australia	**13,562**	15,125	**26,630**	32,173
Argentina	**12,829**	7,991	**24,246**	14,391
Bahrain	**10,509**	8,554	**18,672**	15,642
Brazil	**11,128**	3,532	**17,604**	7,019
Colombia	**6,158**	2,580	**13,822**	7,609
Nigeria	**1,833**	2,040	**11,270**	3,311
Other	**13,384**	5,337	**29,890**	13,906
Total revenue	**$ 372,077**	$ 204,507	**$ 695,146**	$ 407,712

The following table outlines the Company's unsatisfied performance obligations, by product line, as at June 30, 2022:

	Less than one year	One to two years	Greater than two years	**Total**
Engineered Systems	$ 736,742	$ 210	$ -	**$ 736,952**
Service	42,877	20,317	53,903	**117,097**
Energy Infrastructure	227,612	138,540	674,651	**1,040,803**
	$ 1,007,231	**$ 159,067**	**$ 728,554**	**$ 1,894,852**

NOTE 13. SHARE-BASED COMPENSATION

(a) Share-Based Compensation Expense

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

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Equity-settled share-based payments	**$ 470**	$ 453	**$ 927**	$ 893
Cash-settled share-based payments (recovery)	**(3,137)**	2,705	**455**	7,532
Share-based compensation expense (recovery)	**$ (2,667)**	$ 3,158	**$ 1,382**	$ 8,425

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 PSEs, PSUs, RSUs, CPTs, or options to officers and key employees during the first six months of 2022. The DSU, PSU, and RSU holders had dividends credited to their accounts during the period. The carrying value of the liability relating to cash-settled share-based payments at June 30, 2022 included in current liabilities was $8.7 million (December 31, 2021 – $4.3 million) and in other long-term liabilities was $9.5 million (December 31, 2021 - $13.4 million).

(b) Equity-Settled Share-Based Payments

	June 30, 2022		December 31, 2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Options outstanding, beginning of period	**4,456,444**	**$ 11.66**	4,057,142	$ 12.78
Granted	**-**	**-**	654,847	7.85
Exercised[1]	**(2,120)**	**5.51**	-	-
Forfeited	**(27,286)**	**13.51**	(24,267)	9.25
Expired	**(1,079,112)**	**14.44**	(231,278)	20.75
Options outstanding, end of period	**3,347,926**	**$ 10.76**	4,456,444	$ 11.66
Options exercisable, end of period	**1,336,712**	**$ 12.97**	2,445,230	$ 13.62

[1] *The weighted average share price of options at the date of exercise for the six months ended June 30, 2022 was $7.89 (June 30, 2021 – nil).*

The following table summarizes options outstanding and exercisable at June 30, 2022:

	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 – $6.68	828,880	5.13	$ 5.51	165,775	5.13	$ 5.51
$6.69 – $13.51	1,286,688	4.02	10.12	496,979	1.26	12.42
$13.52 – $16.12	1,232,358	3.37	14.95	673,958	3.15	15.21
Total	**3,347,926**	**4.05**	**$ 10.76**	**1,336,712**	**2.69**	**$ 12.97**

(c) Cash-Settled Share-Based Payments

During the three and six months ended June 30, 2022, the value of directors' compensation and executive bonuses elected to be received in DSUs totalled $0.5 million and $1.1 million (June 30, 2021 – $0.4 million and $1.1 million).

	Number of DSUs	Weighted average grant date fair value per unit
DSUs outstanding, January 1, 2022	1,406,170	$ 10.51
Granted	146,942	7.23
In lieu of dividends	8,598	8.01
DSUs outstanding, June 30, 2022	**1,561,710**	**$ 10.19**

NOTE 14. FINANCE COSTS AND INCOME

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Finance Costs				
Short- and long-term borrowings	**$ 4,652**	$ 4,401	**$ 8,472**	$ 8,795
Interest on lease liability	**666**	757	**1,361**	1,550
Total finance costs	**$ 5,318**	$ 5,158	**$ 9,833**	$ 10,345
Finance Income				
Interest income	**$ 858**	$ 204	**$ 1,502**	$ 399
Net finance costs	**$ 4,460**	$ 4,954	**$ 8,331**	$ 9,946

NOTE 15. FINANCIAL INSTRUMENTS

Designation and Valuation of Financial Instruments

Financial instruments at June 30, 2022 were designated in the same manner as they were at December 31, 2021. Accordingly, with the exception of the Notes and certain long-term receivables, the estimated fair values of financial instruments approximated their carrying values. The carrying value and estimated fair value of the Notes as at June 30, 2022 was $270.5 million and $261.5 million, respectively (December 31, 2021 – $266.9 million and $280.3 million, respectively). The fair value of these Notes at June 30, 2022 was determined on a discounted cash flow basis with a weighted average discount rate of 5.9 percent (December 31, 2021 – 3.5 percent).

The Company holds preferred shares that were initially recorded at fair value and subsequently measured at amortized cost and recognized as long-term receivables in Other assets. The carrying value and estimated fair value of the preferred shares at June 30, 2022 was $25.9 million and $25.0 million, respectively (December 31, 2021 – $24.2 million and $27.5 million, respectively).

Derivative Financial Instruments and Hedge Accounting

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

The following table summarizes the Company's commitments to buy and sell foreign currencies as at June 30, 2022:

		Notional amount	Maturity
Canadian Dollar Denominated Contracts			
Purchase contracts	USD	$ **20,387**	July 2022 – April 2023
Sales contracts	USD	**(17,895)**	July 2022 – May 2023
Purchase contracts	EUR	**3,568**	October 2022 – March 2023
Sales contracts	EUR	**(2,453)**	March 2023

At June 30, 2022, the fair value of derivative financial instruments classified as financial assets was $0.3 million, and as financial liabilities was $0.2 million (December 31, 2021 – $0.3 million and $0.2 million, respectively).

Foreign Currency Translation Exposure

The Company is subject to foreign currency translation exposure, primarily due to fluctuations of the Canadian dollar against the U.S. dollar, Australian dollar, and the Brazilian real. Enerflex currently uses U.S. dollar denominated borrowings to hedge against the foreign exchange exposure that arises from U.S. foreign subsidiaries as 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 the three and six months ended June 30, 2022. The following table shows the sensitivity to a 5.0 percent weakening of the Canadian dollar against the U.S. dollar, Australian dollar, and Brazilian real.

Canadian dollar weakens by 5 percent	**USD**	**AUD**	**BRL**
Earnings from foreign operations			
Earnings before income taxes	$ **1,632**	$ **(149)**	$ **92**
Financial instruments held in foreign operations			
Other comprehensive income	$ **14,454**	$ **334**	$ **300**
Financial instruments held in Canadian operations			
Earnings before income taxes	$ **(9,510)**	$ **-**	$ **-**

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, 2022 include interest rates that are fixed and therefore the related interest expense will not be impacted by fluctuations in interest rates. The Company's Bank and Asset-Based Facilities, however, are subject to changes in market interest rates.

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

Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulties in meeting obligations associated with financial liabilities. In managing liquidity risk, the Company has access to a significant portion of its Bank and Asset-Based Facilities for future drawings to meet the Company's future growth targets. As at June 30, 2022, the Company held cash and cash equivalents of $147.1 million and had drawn $78.4 million against the Bank and Asset-Based Facilities, leaving it with access to $678.7 million for future drawings. The Company continues to meet the covenant requirements of its funded debt, including the Bank and Asset-Based Facilities, and Notes, with a bank-adjusted net debt to EBITDA ratio of 1.36:1 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, 2022:

	Less than 3 months	3 months to 1 year	Greater than 1 year	Total
Derivative financial instruments				
Foreign currency forward contracts	$ 60	$ 126	$ -	$ 186
Accounts payable and accrued liabilities	278,166	-	-	278,166
Long-term debt – Bank Facility	-	4,735	46,624	51,359
Long-term debt – Asset-Based Facility	-	-	27,029	27,029
Long-term debt – Notes	-	-	270,505	270,505
Other long-term liabilities	-	-	12,413	12,413

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

NOTE 16. SUPPLEMENTAL CASH FLOW INFORMATION

	Three months ended June 30,		Six months ended June 30,	
		Restated (Note 21)		Restated (Note 21)
	2022	2021	**2022**	2021
Net change in working capital and other				
Accounts receivable	**$ (36,533)**	$ 2,539	**$ (46,373)**	$ 28,161
Contract assets	**17,859**	(2,494)	**(13,559)**	13,762
Inventories	**1,774**	18,219	**(21,098)**	25,441
Work-in-progress related to finance leases	**(11,857)**	(14,304)	**(8,065)**	(14,304)
Finance leases receivable	**(1,615)**	473	**(35,814)**	936
Income taxes receivable	**1,097**	7,280	**1,284**	8,175
Accounts payable and accrued liabilities, and provisions[1]	**11,219**	(24,655)	**37,047**	(36,572)
Income taxes payable	**(1,726)**	(2,013)	**(68)**	(1,091)
Deferred revenue	**7,719**	(745)	**32,322**	(6,355)
Foreign currency and other	**2,629**	(344)	**(3,366)**	(879)
	$ (9,434)	$ (16,044)	**$ (57,690)**	$ 17,274

[1] *The change in accounts payable and accrued liabilities, provisions, and income taxes payable represents only the portion relating to operating activities.*

Cash interest and taxes paid and received during the period:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Interest paid – short- and long-term borrowings	**$ 8,071**	$ 7,804	**$ 9,088**	$ 8,431
Interest paid – lease liabilities	**666**	757	**1,361**	1,550
Total interest paid	**$ 8,737**	$ 8,561	**$ 10,449**	$ 9,981
Interest received	**136**	138	**492**	196
Taxes paid	**5,183**	7,776	**6,180**	8,676
Taxes received	**1,821**	5,727	**2,448**	5,875

Changes in liabilities arising from financing activities during the period:

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	**2022**	2021
Long-term debt, opening balance	**$ 339,126**	$ 362,145	**$ 331,422**	$ 389,712
Changes from financing cash flows	**(1,466)**	(18,392)	**9,817**	(43,151)
The effect of changes in foreign exchange rates	**8,070**	(3,809)	**4,277**	(6,718)
Amortization of deferred transaction costs	**312**	354	**617**	610
Deferred transaction costs	**(91)**	(892)	**(182)**	(1,047)
Long-term debt, closing balance	**$ 345,951**	$ 339,406	**$ 345,951**	$ 339,406

NOTE 17. GUARANTEES, COMMITMENTS, AND CONTINGENCIES

At June 30, 2022, the Company had outstanding letters of credit of $35.6 million (December 31, 2021 - $42.1 million).

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

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

2022	**$ 315,186**
2023	**59,521**
2024	**2,612**

NOTE 18. SEASONALITY

The oil and natural gas service sector in Canada and in some parts of the USA has a distinct seasonal trend in activity levels which results from well-site access and drilling pattern adjustments to take advantage of weather conditions. Generally, Enerflex's Engineered Systems product line has experienced higher revenues in the fourth quarter of each year while Service and Energy Infrastructure product line revenues have been stable throughout the year. Energy Infrastructure revenues are also impacted by both the Company's and its customers' capital investment decisions. The USA and ROW 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 types of customers 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, 2022, the Company had no individual customers which accounted for more than 10 percent of its revenue (June 30, 2021 - none).

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;*
- *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 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		Rest of World		Canada		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment revenue	**$ 226,087**	$ 120,754	**$ 104,125**	$ 65,429	**$ 73,205**	$ 39,128	**$ 403,417**	$ 225,311
Intersegment revenue	**(28,733)**	(15,095)	**(111)**	(34)	**(2,496)**	(5,675)	**(31,340)**	(20,804)
Revenue	**$ 197,354**	$ 105,659	**$ 104,014**	$ 65,395	**$ 70,709**	$ 33,453	**$ 372,077**	$ 204,507
Revenue – Engineered Systems	**112,673**	44,698	**34,810**	3,642	**48,863**	16,658	**196,346**	64,998
Revenue – Service	**53,105**	37,195	**31,861**	24,668	**20,873**	15,767	**105,839**	77,630
Revenue – Energy Infrastructure	**31,576**	23,766	**37,343**	37,085	**973**	1,028	**69,892**	61,879
Operating income (loss)[1]	**$ 14,044**	$ 4,872	**$ 7,217**	$ 9,355	**$ (1,018)**	$ 3,518	**$ 20,243**	$ 17,745

Six months ended June 30,	USA		Rest of World		Canada		Total	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021
Segment revenue	**$ 408,842**	$ 205,719	**$ 213,519**	$ 135,946	**$ 140,329**	$ 90,757	**$ 762,690**	$ 432,422
Intersegment revenue	**(64,024)**	(18,114)	**(189)**	(40)	**(3,331)**	(6,556)	**(67,544)**	(24,710)
Revenue	**$ 344,818**	$ 187,605	**$ 213,330**	$ 135,906	**$ 136,998**	$ 84,201	**$ 695,146**	$ 407,712
Revenue – Engineered Systems	**190,305**	73,938	**84,102**	12,084	**96,370**	51,208	**370,777**	137,230
Revenue – Service	**95,354**	67,309	**54,895**	50,579	**38,776**	30,278	**189,025**	148,166
Revenue – Energy Infrastructure	**59,159**	46,358	**74,333**	73,243	**1,852**	2,715	**135,344**	122,316
Operating income (loss)[1]	**$ 14,389**	$ 5,238	**$ 17,499**	$ 14,083	**$ (4,806)**	$ 5,445	**$ 27,082**	$ 24,766

[1] The company did not receive any government grants during the three and six months ended June 30, 2022 (June 30, 2021 – $6.4 million and $10.5 million). Government grants are recorded in COGS and SG&A within the interim condensed consolidated statements of earnings in accordance with where the associated expenses were recognized.

	USA		Rest of World		Canada		Total	
	Jun. 30, 2022	Dec. 31, 2021	**Jun. 30, 2022**	Dec. 31, 2021	**Jun. 30, 2022**	Dec. 31, 2021	**Jun. 30, 2022**	Dec. 31, 2021
Segment assets	**$ 1,030,299**	$ 1,000,755	**$ 694,574**	$ 654,969	**$ 560,449**	$ 546,250	**$ 2,285,322**	$ 2,201,974
Goodwill	**156,970**	154,437	**322,707**	323,466	**88,367**	88,367	**568,044**	566,270
Corporate	**-**	-	**-**	-	**-**	-	**(560,480)**	(576,802)
Total segment assets	**$ 1,187,269**	$ 1,155,192	**$ 1,017,281**	$ 978,435	**$ 648,816**	$ 634,617	**$ 2,292,886**	$ 2,191,442

NOTE 20. PENDING EXTERRAN TRANSACTION

On January 24, 2022, the Company announced the proposed acquisition (the "Transaction") of Exterran Corporation ("Exterran"), in which Enerflex would acquire all of the outstanding shares of common stock of Exterran by issuing 1.021 common shares of Enerflex in exchange for each share of Exterran. The closing of the Transaction is subject to obtaining regulatory approvals and approval by shareholders of Enerflex and Exterran, and satisfying other conditions that are customary for a transaction of this type.

The Company continues to progress all matters that need to be addressed to close the Transaction. A number of the required regulatory approvals have been obtained and the Company continues to pursue the approval required from the Securities and Exchange Commission in connection with the registration of the common shares of Enerflex in the United States.

NOTE 21. RESTATEMENT OF THE INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

The Company has determined that during the three and six months ended June 30, 2021, certain non-cash items were reflected as transfers between Operating, Investing, and Financing cash flows. These non-cash items should not be reflected as part of the cash flow statement and the Statements of Cash Flows and related disclosures have been adjusted to remove the non-cash items. The Company has also identified certain cash flow items requiring reclassification between cash flow categories. For the three months ended June 30, 2021, these adjustments resulted in a decrease to Operating cash flows of $15.2 million, and an increase to Investing and Financing cash flows of $12.2 million and $4.6 million, respectively. For the six months ended June 30, 2021, the adjustments resulted in a decrease to Operating cash flows of $16.5 million, and an increase to Investing and Financing cash flows of $10.3 million and $8.3 million, respectively. The adjustments do not change the Company's overall cash position, nor does it impact the Statement of Financial Position, the Statement of Earnings, or EBITDA calculations.

	Three months ended June 30, 2021		
	As previously reported	Restatement	**As restated**
Operating Activities			
Net earnings	$ 4,291	$ -	**$ 4,291**
Items not requiring cash and cash equivalents:			
Depreciation and amortization	21,389	-	**21,389**
Equity earnings from associates and joint ventures	(187)	-	**(187)**
Deferred income taxes (Note 11)	1,361	-	**1,361**
Share-based compensation expense (Note 13)	3,158	-	**3,158**
Gain on sale of property, plant and equipment (Note 4)	(63)	-	**(63)**
Impairment on rental equipment (Note 4)	-	485	**485**
	29,949	485	**30,434**
Net change in working capital and other (Note 16)	(403)	(15,641)	**(16,044)**
Cash provided by operating activities	$ 29,546	$ (15,156)	**$ 14,390**
Investing Activities			
Additions to:			
Property, plant and equipment (Note 4)	$ (1,426)	$ -	**$ (1,426)**
Rental equipment (Note 4)	(14,641)	-	**(14,641)**
Proceeds on disposal of:			
Property, plant and equipment (Note 4)	77	-	**77**
Rental equipment (Note 4)	59	90	**149**
Change in other assets	3,895	(3,895)	**-**
Net change in accounts payable related to the addition of property, plant and equipment, and rental equipment	-	16,032	**16,032**
Cash provided by (used in) investing activities	$ (12,036)	$ 12,227	**$ 191**
Financing Activities			
Repayment of long-term debt (Note 9)	$ (23,093)	$ 23,093	**$ -**
Net repayment of the Bank Facility (Note 9)	-	(22,106)	**(22,106)**
Net proceeds from the Asset-Based Facility (Note 9)	-	43,714	**43,714**
Repayment of the Notes (Note 9)	-	(40,000)	**(40,000)**
Lease liability principal repayment (Note 10)	(3,151)	-	**(3,151)**
Lease interest (Note 10)	(757)	757	**-**
Dividends paid	(1,794)	-	**(1,794)**
Debt refinancing and transaction costs	-	(892)	**(892)**
Cash used in financing activities	$ (28,795)	$ 4,566	**$ (24,229)**
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	$ (385)	$ (1,637)	**$ (2,022)**
Decrease in cash and cash equivalents	(11,670)	-	**(11,670)**
Cash and cash equivalents, beginning of period	110,642	-	**110,642**
Cash and cash equivalents, end of period	$ 98,972	$ -	**$ 98,972**

	Six months ended June 30, 2021		
	As previously reported	Restatement	**As restated**
Operating Activities			
Net earnings	$ 7,294	$ -	**$ 7,294**
Items not requiring cash and cash equivalents:			
Depreciation and amortization	42,461	-	**42,461**
Equity earnings from associates and joint ventures	225	-	**225**
Deferred income taxes (Note 11)	(3,159)	-	**(3,159)**
Share-based compensation expense (Note 13)	8,425	-	**8,425**
Gain on sale of property, plant and equipment (Note 4)	(38)	-	**(38)**
Impairment on rental equipment (Note 4)	-	485	**485**
	55,208	485	**55,693**
Net change in working capital and other (Note 16)	34,289	(17,015)	**17,274**
Cash provided by operating activities	$ 89,497	$ (16,530)	**$ 72,967**
Investing Activities			
Additions to:			
Property, plant and equipment (Note 4)	$ (2,745)	$ -	**$ (2,745)**
Rental equipment (Note 4)	(25,970)	-	**(25,970)**
Proceeds on disposal of:			
Property, plant and equipment (Note 4)	77	-	**77**
Rental equipment (Note 4)	587	431	**1,018**
Change in other assets	5,336	(5,336)	**-**
Net change in accounts payable related to the addition of property, plant and equipment, and rental equipment	-	15,241	**15,241**
Cash used in investing activities	$ (22,715)	$ 10,336	**$ (12,379)**
Financing Activities			
Repayment of long-term debt (Note 9)	$ (50,916)	$ 50,916	**$ -**
Net repayment of the Bank Facility (Note 9)	-	(46,865)	**(46,865)**
Net proceeds from the Asset-Based Facility (Note 9)	-	43,714	**43,714**
Repayment of the Notes (Note 9)	-	(40,000)	**(40,000)**
Lease liability principal repayment (Note 10)	(6,487)	-	**(6,487)**
Lease interest (Note 10)	(1,550)	1,550	**-**
Dividends paid	(3,587)	-	**(3,587)**
Debt refinancing and transaction costs (Note 16)	-	(1,047)	**(1,047)**
Cash used in financing activities	$ (62,540)	$ 8,268	**$ (54,272)**
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	$ (946)	$ (2,074)	**$ (3,020)**
Decrease in cash and cash equivalents	3,296	-	**3,296**
Cash and cash equivalents, beginning of period	95,676	-	**95,676**
Cash and cash equivalents, end of period	$ 98,972	$ -	**$ 98,972**

NOTE 22. SUBSEQUENT EVENTS

Subsequent to June 30, 2022, Enerflex declared a quarterly dividend of $0.025 per share, payable on October 6, 2022, to shareholders of record on August 18, 2022. Enerflex's Board of Directors will continue to evaluate dividend payments on a quarterly basis, based on the availability of cash flow and anticipated market conditions.

BOARD OF DIRECTORS

FERNANDO ASSING[4]
Director
Houston, TX

MAUREEN CORMIER JACKSON[5]
Director
Calgary, AB

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

MONA HALE[6]
Director
Edmonton, AB

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

KEVIN J. REINHART[7]
Chairman
Calgary, AB

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

JUAN CARLOS VILLEGAS[2, 4]
Director
Lo Barnechea, RM, Chile

MICHAEL A. WEILL[1, 6]
Director
Houston, TX

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

EXECUTIVES

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

DAVID IZETT
Senior Vice President, General Counsel
Calgary, AB

PATRICIA MARTINEZ
Chief Energy Transition Officer
Houston, TX

PHIL PYLE
President, International
Abu Dhabi, UAE

GREG STEWART
President, United States of America Houston, TX

MAURICIO MEINERI
President, Latin 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
TSX Trust Company
Calgary, AB, Canada and Toronto, ON, Canada

For shareholder inquiries:
TSX Trust Company
2001 Boul. Robert-Bourassa, Suite 1600
Montreal, QC, H3A 2A6, Canada

Mail:
PO Box 700
Station B
Montreal, QC, H3B 3K3, Canada

Tel: +1.800.387.0825 | +1.416.682.3860
Email: inquiries@astfinancial.com
Web: astfinancial.com/ca-en

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

AUDITORS
Ernst & Young | Calgary, AB, Canada

BANKERS
The Toronto Dominion Bank | Calgary, AB, Canada

The Bank of Nova Scotia | Toronto, ON, Canada

INVESTOR RELATIONS
Enerflex Ltd.
Suite 904, 1331 Macleod Trail SE
Calgary, AB, T2G 0K3, Canada

Tel: +1.403.387.6377 | Email: ir@enerflex.com

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

ENERFLEX

Head Office:
Suite 904
1331 Macleod Trail SE
Calgary, Alberta, Canada T2G 0K3

+ 1.403.387.6377
ir@enerflex.com
enerflex.com